

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
Southern Division

2002 APR -8 AM 9:09

U.S. BANKRUPTCY COURT
N.D. OF ALABAMA

In re:

SHOOK & FLETCHER INSULATION CO.

Debtor-in-Possession.

02 02771
Case No. 02-02771
Chapter 11

**MOTION FOR AUTHORITY TO USE CASH COLLATERAL AND TO OBTAIN
SUBORDINATED SECURED CREDIT FROM SHOOK & FLETCHER SUPPLY CO.**

Shook & Fletcher Insulation Co., debtor and debtor-in-possession ("Shook" or the "Debtor"), by counsel, hereby moves this Court for authority to use cash collateral and to obtain subordinated secured credit from Shook & Fletcher Supply Co. ("Supply") in accordance with the terms of the Agreement Regarding Use of Cash Collateral and Subordinated DIP Financing described below (the "Motion"). Shook seeks entry of (i) an interim order authorizing the use of cash collateral and permitting the Debtor to obtain subordinated secured credit on an emergency basis, and (ii) a final order following at least fifteen days thereafter. In support of this Motion, the Debtor represents:

JURISDICTION, VENUE AND STATUTORY BASIS FOR RELIEF

1. The Court has jurisdiction over this Motion pursuant to 28 U.S.C. § 1334(b). The Motion is a core proceeding under 28 U.S.C. § 157(b)(2). Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

2. The Debtor brings this Motion pursuant to 11 U.S.C. §§ 363 and 364 and Rules 4001(b), (c) and (d) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules").

BACKGROUND

3. On April 8, 2002 (the "Petition Date"), Shook filed its voluntary petition under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"). Shook is authorized to operate its business and manage its property as a debtor-in-possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code.

4. The Debtor incorporates by reference as if fully set forth herein the Declaration of Wayne W. Killion, Jr. In Support of Voluntary Petition and First Day Motions filed with this Court on the Petition Date.

RELIEF REQUESTED

5. By this Motion, the Debtor seeks authority, on an interim and final basis, to use cash collateral and to continue to obtain subordinated secured credit from Supply. The Debtor has two other secured lenders: SouthTrust Bank ("SouthTrust"), which has provided Shook with secured working capital financing in the aggregate amount of up to \$3 million, and AmSouth Bank of Alabama ("AmSouth"), which in July 1998 made a mortgage loan for \$1,050,000 secured by the Debtor's headquarters building on Valleydale Road. By separate motion, the Debtor is seeking authority to use cash collateral and to continue to obtain secured credit from SouthTrust. AmSouth and its mortgage loan are unaffected by the SouthTrust and Supply post-petition financing facilities.

REQUEST FOR AUTHORITY TO OBTAIN SECURED CREDIT

6. Shook realized that the cost of these proceedings would be greater than its ability to pay from the proceeds of ongoing operations and the existing SouthTrust working capital facility. Given Shook's situation, it was not realistic to obtain financing from any commercial source upon any reasonable terms. As a result, Shook turned to its affiliate, Supply, for secured

financing.¹ On December 17, 2001, Shook and Supply entered into that certain Loan and Security Agreement, together with a promissory note (collectively, as amended, the “Supply Loan Documents”)², which provided for financing on a secured basis of up to \$2 million (the “Supply Financing”). Given the mounting expenses of this process, Shook and Supply have agreed to increase the maximum amount of the Supply Financing to \$3 million.

7. As of the Petition Date, \$2 million is due to Supply under the Supply Financing. The Supply Financing is presently payable in full in December 2002.

8. The Supply Financing is secured by a blanket lien (the “Lien”) upon, among other things, the Debtor’s accounts (including accounts receivable), inventory, general intangibles, equipment and real estate, and the proceeds thereof (collectively, the “Supply Pre-petition Collateral”), but such Lien is subordinate in all respects to the liens and security interests of SouthTrust, and to the mortgage of AmSouth upon the Debtor’s headquarters building in Birmingham, Alabama. The Debtor believes that the Lien has been duly perfected and constitutes a non-voidable lien against and security interest in the Supply Pre-petition Collateral.

9. Unless the Debtor can continue to obtain advances under the Supply Financing, in addition to that available under the SouthTrust facility, it will not have available sufficient working capital with which to operate its business and fund this Chapter 11 case. At the Debtor’s request, Supply has agreed to provide the Debtor with post-petition subordinated financing by continuing in place on a post-petition basis the same financing arrangement as existed pre-petition under the Supply Loan Documents (the “DIP Financing”). The terms of the DIP Financing are embodied in the Agreement Regarding Use of Cash Collateral and

¹ Supply is owned by the same shareholders as own Shook.

² Copies of the Supply Loan Documents are attached hereto collectively at Exhibit A.

Subordinated DIP Financing (the "DIP Loan Agreement"), a copy of which is attached hereto as Exhibit B.

10. Supply has agreed to provide the Debtor with revolving credit advances of up to \$3 million under the DIP Loan Agreement. All amounts advanced in respect of the DIP Financing will be governed by and payable by the Debtor in accordance with the Supply Loan Documents and the DIP Loan Agreement. Moreover, Supply has agreed to waive any default under the Supply Loan Documents caused solely by the Debtor's filing of its voluntary petition under Chapter 11 of the Bankruptcy Code on the Petition Date. All credit incurred will be used to fund continued operations and other administrative expenses in this case. The DIP Financing presently will terminate in December 2002. The claims of Supply under the DIP Financing will have priority over any and all administrative expense claims pursuant to Section 364(c)(1) and will be secured by the Lien on the Pre-petition Collateral, as well as by a replacement lien on and security interest in any newly acquired property of the same type, as set out below, in all events subordinate to the claims and liens of SouthTrust.

11. The Debtor is unable to obtain the credit it requires on an unsecured basis, allowable under § 503(b)(1) of the Bankruptcy Code as an administrative expense. In light of Supply's willingness to provide subordinated secured financing with a minimum of cost and expense and with no disruption to the Debtor's existing financing arrangements, the Debtor believes that the DIP Financing provided by Supply is more advantageous than other replacement financing would be. Accordingly, the Debtor believes that the proposed DIP Financing is in the best interests of its estate, its creditors and other parties in interest.

REQUEST FOR AUTHORITY TO USE CASH COLLATERAL

12. To the extent Supply has an interest in the Supply Pre-petition Collateral and the proceeds thereof, including cash or cash equivalents, the Supply Pre-petition Collateral constitutes cash collateral within the meaning of Section 363(a) of the Bankruptcy Code.³

13. Under § 363(c)(2) of the Bankruptcy Code, the Debtor may not use cash collateral unless each entity that has an interest in the cash collateral consents or the Court enters its order authorizing such use. Supply has consented to the use of the cash collateral upon the terms set forth in the DIP Loan Agreement and the proposed interim order submitted with this Motion.

14. To preserve the value of the Debtor's assets and the Debtor's ability to manage its estate for the benefit of creditors and other parties in interest, the Debtor must use cash collateral in the ordinary course of business to pay operating expenses and other costs. Without authority to use cash collateral, the Debtor will not be able to function as a going concern, and will not be able to proceed to consideration of its Plan or to reorganize. Accordingly, authority to use cash collateral is necessary to avoid the shutdown of the Debtor's businesses, and will be in the best interests of the Debtor, its estate and its creditors.

SECURITY FOR THE DIP FINANCING AND ADEQUATE PROTECTION FOR THE USE OF CASH COLLATERAL

15. As adequate protection for the use of cash collateral, and as security for new funds advanced under the DIP Loan Agreement, Supply will be granted a continuing security interest and replacement lien in and to all property arising or acquired on and after the Petition Date which would have constituted Supply Pre-petition Collateral but for the commencement of this case and all proceeds thereof, pursuant to the DIP Loan Agreement. Such liens and security

³ As a result of SouthTrust's pre-petition secured loan to Shook, the Supply Pre-petition Collateral may also give rise to cash collateral of SouthTrust.

interests shall have priority over all other liens and security interests except those of SouthTrust and AmSouth with respect to their respective pre-petition collateral and the liens granted to SouthTrust in respect of its DIP financing facility, and shall be deemed perfected without the need for further action by Supply. Furthermore, Supply's claims under the DIP Loan Agreement shall be granted superpriority administrative expense status, in accordance with Section 364(c)(1), over all other administrative expenses of the Debtor, except the superpriority claim of SouthTrust.

REQUEST FOR MODIFICATION OF AUTOMATIC STAY

16. The DIP Loan Agreement provides that, subject to this Court's approval, the automatic stay provided under Section 362(d) of the Bankruptcy Code will be modified to the extent necessary to effectuate the provisions of the DIP Loan Agreement, including, but not limited to, permitting Supply to receive and apply the payments made by the Debtor in accordance with the terms and provisions of the DIP Loan Agreement. The DIP Loan Agreement further provides that the automatic stay will be modified to allow Supply to exercise all of its contractual, legal and equitable rights in and to the Pre-petition Collateral, without further order or notice in the event that (a) Supply files a duly executed affidavit with the Bankruptcy Court attesting to the occurrence of an Event of Default under (and as defined in) the DIP Loan Agreement and serves a copy of such filing and affidavit on the Debtor, its counsel, and such others as are entitled to notice under existing orders of the Bankruptcy Court, by hand delivery or facsimile and (b) the Debtor fails to file, within five (5) business days of Supply's filing of its affidavit, an affidavit of the Debtor with the Bankruptcy Court refuting that an Event of Default has occurred under the DIP Loan Agreement. If the Debtor does file an affidavit refuting that an Event of Default has occurred under the DIP Loan Agreement, the Debtor shall

serve a copy of such filing and affidavit on Supply, its counsel, and such others as are entitled to notice under existing orders of the Bankruptcy Court, by hand delivery or facsimile, and the parties agree to request the Bankruptcy Court to hold a prompt hearing on Supply's request for relief from the automatic stay.

INTERIM RELIEF REQUESTED

17. The Debtor seeks authority to use cash collateral and to obtain the DIP Financing on an immediate basis to pay its operating expenses and to maintain and preserve the value of its assets, pending a final hearing on this Motion. The Debtor seeks authority to borrow additional funds, up to a total amount outstanding of \$2.4 million, on an interim basis pending a final hearing (the "Interim Period").⁴ At a final hearing on this Motion, the Debtor will seek entry of a final order (i) authorizing continued use of cash collateral, and (ii) approving the DIP Financing in the aggregate amount of \$3 million.

18. The Debtor believes that the interim relief requested herein is critical to avoid immediate and irreparable harm to the Debtor's estate, and to preserve and maximize the Debtor's assets.

19. Under Sections 363 and 364 of the Bankruptcy Code, this Court has authority to enter the proposed interim order permitting the Debtor to use cash collateral and obtain DIP financing during the Interim Period pursuant to the terms of the DIP Financing Agreement.

NOTICE AND SCHEDULING MATTERS

20. No committee of unsecured creditors has been appointed in the Debtor's bankruptcy case. In accordance with Bankruptcy Rule 4001(b) and (c), the Debtor has served a

⁴ Since \$2.0 million was outstanding as of the Petition Date, this interim request seeks authority to borrow up to an additional \$400,000 during the Interim Period.

copy of this Motion and the proposed interim order by first class mail upon the twenty largest unsecured creditors of the Debtor, as well as upon the Debtor's other secured lenders (SouthTrust and AmSouth) and the other parties on the Service List proposed by the Debtor (collectively, the "Interested Parties").

21. Under Bankruptcy Rules 4001(b)(2) and (c)(2), the Court may commence a final hearing on a motion for authority to use of cash collateral and to obtain credit no earlier than fifteen (15) days after service of the motion and notice of hearing on the motion. Bankruptcy Rule 4001(b)(2) and (c)(2) further provide, however, that the Court may conduct a preliminary hearing on such matters before the expiration of the 15-day notice period as necessary to avoid immediate and irreparable harm to a debtor's estate pending a final hearing.

22. The Debtor respectfully requests the Court to conduct a preliminary hearing on the Motion as soon as possible to authorize the use of cash collateral and to obtain credit on an interim basis as necessary to avoid immediate and irreparable harm to the Debtor's estate pending a final hearing.

23. The Debtor also requests that the Court schedule a final hearing to consider entry of a final order authorizing the Debtor to use cash collateral and obtain credit beyond the Interim Period. Within two (2) business days after entry of the interim order, the Debtor proposes to give notice of the date and time of the final hearing, and to provide a copy of the interim order as entered by the Court, to the Interested Parties.

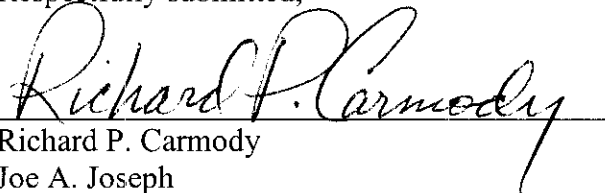
24. The Debtor further proposes to send a copy of the proposed final order authorizing the Debtor to use cash collateral and to obtain secured credit to the Interested Parties at least three (3) business days prior to the date scheduled for the final hearing on this Motion. The Debtor believes that this procedure will afford Interested Parties sufficient time to review

such final order and meaningfully participate in a final hearing on the Motion.

CONCLUSION

WHEREFORE, the Debtor respectfully prays that this Court (i) enter the proposed interim order submitted with this Motion (A) authorizing the Debtor to obtain subordinated secured credit and use cash collateral during the Interim Period, (B) scheduling a final hearing to consider authorizing the Debtor to obtain subordinated secured credit and use cash collateral beyond the Interim Period, and prescribing the form and manner of notice, (C) providing adequate protection, and (D) granting interim relief; and (ii) following a final hearing on this Motion, enter a final order authorizing the Debtor to obtain credit and use cash collateral upon the terms set forth herein and in the DIP Loan Agreement; (iii) and grant such other and further relief as may be just and proper.

Respectfully submitted,



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Proposed Attorneys for Shook & Fletcher Insulation
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Dated: April 8, 2002

Exhibit A

Supply Loan Agreements

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT is made and entered into this 17th day of December, 2001, by and between **SHOOK & FLETCHER INSULATION CO.**, a Delaware corporation, qualified to do business in Alabama ("Borrower"), and **SHOOK & FLETCHER SUPPLY CO. OF ALABAMA, INC.**, a Delaware corporation ("Lender"), as follows:

WITNESSETH:

WHEREAS, Borrower desires to borrow from Lender and Lender desires to loan to Borrower an amount up to Two Million Dollars (\$2,000,000.00), said amount to be secured by substantially all of the assets of Borrower, including, without limitation, inventory, accounts receivable, rolling stock and real estate;

NOW, THEREFORE, in consideration of the above premises and the mutual covenants contained herein, the Borrower and the Lender agree as follows:

ARTICLE I **DEFINITIONS**

1.1 Defined Terms. As used in this Loan and Security Agreement, the following terms shall have the following meanings:

Account Debtor - any Person who is or may become obligated under or on account of an Account.

Accounts - all accounts, accounts receivable, chattel paper, chattel mortgages, leases, instruments, documents, promissory notes, contracts for receipt of money, conditional sales contracts, and evidences of Debt of or owing to or acquired by Borrower whether now existing or hereafter arising, including, without limitation, (i) all accounts and other rights to payment of money which arise or result from Borrower's selling or other disposition of Borrower's goods or the providing of services by the Borrower, (ii) the proceeds of any insurance covering the Collateral, and (iii) the return of unearned insurance premiums.

Aggregate Loan Values - the lesser of (i) the sum of \$2,000,000 or (ii) the sum of (a) the equity value of the Real Estate Collateral as set forth on Exhibit "B", (b) the Equipment value (minus depreciation) as set forth on Exhibit "B", and (c) fifty percent (50%) of the Inventory and twenty-five percent (25%) of the Accounts meeting the SouthTrust Bank requirements for Borrower's SouthTrust Loan and Security Agreement, dated March 22, 2001, as reported monthly to SouthTrust Bank.

Capital Expenditures - expenditures made or liabilities incurred for the acquisition of any fixed assets or improvements, replacements, substitutions or additions thereto which have a useful life of more than one year, including the direct or indirect acquisition of such assets by way

of increased product or service charges, offset items or otherwise and the principal portion of payments with respect to Capitalized Lease Obligations.

Collateral - collectively, the Borrower's Accounts, General Intangibles, Equipment, Real Estate and Inventory, the other property and interests described in Section 8.1 hereof and elsewhere in the Loan Documents, and the proceeds and products of each, as the case may be.

Debt - the sum of (i) indebtedness for borrowed money or for the deferred purchase price of property or services, (ii) Capitalized Lease Obligations, (iii) all other items which in accordance with GAAP would be included in determining total liabilities as shown on a balance sheet of a Person as at the date as of which Debt is to be determined.

Default Rate - the rate of interest provided in the Promissory Note(s) at which the indebtedness represented thereby is to bear interest after default by Borrower or the occurrence of an Event of Default, or if no such rate is mentioned, a rate of interest equal to five percent (5%) in excess of the rate that would otherwise be applicable calculated daily and computed on the actual days elapsed over a year of 360 days (unless reference to a 365 or a 366-day year is necessary in order not to exceed the highest rate permitted by Applicable Law), said rate to change as and when the Base Rate changes.

Environmental Regulations - all federal, state and local laws, rules, regulations, ordinances, programs, permits, guidances, orders and consent decrees relating to the environment or to public health, safety and environmental matters, or petroleum products, or radon radiation, or oil or hazardous substances, including, but not limited to, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Toxic Substances Control Act, the Clean Water Act, the Clean Air Act, the River and Harbor Act, the Water Pollution Control Act, the Marine Protection Research and Sanctuaries Act, the Deep--Water Port Act, the Safe Drinking Water Act, the Superfund Amendments and Reauthorization Act of 1986, the Federal Insecticide, Fungicide and Rodenticide Act, the Mineral Lands and Leasing Act, the Surface Mining Control and Reclamation Act, the Oil Pollution Act of 1990, state and federal superlien and environmental cleanup programs and laws, U.S. Department Transportation regulations, laws regulating hazardous, radioactive and toxic materials and underground petroleum products storage tanks, and all similar state, federal and local laws and regulations.

Equipment - the rolling stock of Borrower described on Exhibit "B" hereof.

Event of Default - any one of the events enumerated in Section 10.1 hereof, together with any breach any of the Loan Documents or if there should occur a default or an Event of Default under or with respect to any of the Loan Documents.

General Intangibles - all general intangibles of Borrower, whether now owned or hereafter acquired, including, without limitation, all choses in action, causes of action, corporate or other business records, deposit accounts, inventions, designs, patents, patent applications, trademarks, trade names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, tax refund claims, computer programs, all claims under guaranties, performance and

payments bonds or bonds for the furnishing of labor and materials, security interests or other security held by or granted to Borrower to secure payment of any of the Accounts by an Account Debtor, all rights to indemnification, and all other intangible property of every kind and nature (other than Accounts).

Inventory - all inventory of whatever kind or nature of Borrower, now owned or hereafter acquired by Borrower, and wherever located, including, without limitation, all goods held for sale or lease or furnished or to be furnished under contracts, and any raw materials, goods in transit, work in process or finished goods, supplies, returned or repossessed goods, together with all goods and materials used or consumed in Borrower's business.

Lien - any interest in property (real, personal or mixed, and tangible or intangible) securing an obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on the common law, statute or contract, and including, but not limited to, the security interest, security title or Lien arising from a security agreement, mortgage, deed of trust, deed to secure debt, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" shall include covenants, conditions, restrictions, leases and other encumbrances affecting any property. For the purpose of this Agreement, Borrower shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the property has been retained by or vested in some other Person for security purposes.

Loan or Loans - the loan in principal amounts of up to \$2,000,000 advanced by the Lender to the Borrower from time to time evidenced by the Note(s) described in Section 2.1 of this Agreement (and any substitutions therefor, extensions thereof, or renewal thereof).

Loan Documents - this Agreement, the Notes, the Guaranty Agreements, and each and every mortgage, deed of trust, guarantee, reimbursement agreement, credit agreement, note, security agreement, financing statement or other instrument executed and delivered to evidence the Loans or any other Obligation, to constitute collateral for the Loans or any other Obligation, or to evidence security for the Loans or any other Obligation, and any and all other agreements, instruments, and documents heretofore, now or hereafter, executed by Borrower and delivered to Lender in respect to the transactions contemplated by this Agreement.

Obligations - all Loans and all other advances, debts, liabilities, obligations, covenants and duties owing, arising, due or payable from Borrower to Lender of any kind or nature, present or future, whether or not evidenced by any note, guaranty or other instrument, whether arising under this Agreement or any of the other Loan Documents or otherwise, whether direct or indirect (including those acquired by assignment), absolute or contingent, primary or secondary, due or to become due, now existing or hereafter arising and however evidenced or acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and any other sums chargeable to Borrower under any of the Loan Documents and all rights Lender may at any time or times have to reimbursement in connection with any letter of credit or guaranty issued for Borrower's benefit.

Real Estate - the real estate of Borrower described on Exhibit "B" hereof.

Solvent - as to any Person, means such Person (i) owns property, real, personal, and mixed, whose aggregate fair saleable value is greater than the amount required to pay all of such Person's Debt (including contingent debts), and (ii) is able to pay all of its Debt as such Debt matures and (iii) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage.

1.2 Accounting Terms. All accounting terms used herein shall be construed in accordance with GAAP.

1.3 Interpretation. The terms "herein", "hereof", and "hereunder", and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronouns used shall be deemed to cover all genders. Whenever the singular or plural number is used herein, it shall equally include the other. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations. All references to any instruments or agreements, including, without limitation, references to any of the Loan Documents shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof

1.4 Uniform Commercial Code. All other terms contained in this Agreement shall, unless otherwise defined herein or unless the context otherwise indicates, have the meanings provided for by the Uniform Commercial Code of the State of Alabama.

ARTICLE II

THE LOAN

2.1 Loan Terms

2.1.1 Subject to all terms set forth herein and until the earlier of demand (subject to the requirements of Section 2.1.6 below) or the Termination Date and provided no Event of Default exists hereunder or under any Loan Document, Lender agrees, from time to time and on the terms hereinafter set forth, to loan to Borrower, when requested by Borrower, principal amounts aggregating up to the lesser of (i) \$2,000,000 or (ii) the Aggregate Loan Values as determined by the Lender from the periodic reports submitted by Borrower to the Lender (the "Borrower's Report"). If not earlier demanded, the entire principal, interest, and other charges due with respect to the Loan will be due and payable without further notice or demand to Borrower on the Termination Date provided in Section 2.1.2 below. Within the aforesaid limits, the Borrower may borrow, make payments, and reborrow under this Agreement, subject to the provisions hereof.

2.1.2 Notwithstanding any other provision of this Agreement, the maximum principal amount of all Advances outstanding at any time hereunder shall not exceed the lesser of (a) \$2,000,000 or (b) the Aggregate Loan Values. Subject to the aforesaid limit, Borrower may borrow, make payments, and reborrow funds under this Agreement; provided however, that Borrower may not borrow funds hereunder if Lender has made demand or if an Event of Default has

occurred, and provided further that Borrower shall not be entitled to borrow funds hereunder after the "Termination Date". The "Termination Date" shall mean December 17, 2002.

2.1.3 The obligation to repay the Loan shall be evidenced by a Note dated December 17, 2001 payable to the order of the Lender and maturing on demand or, if demand is not sooner made, on the Termination Date.

2.1.4 If the outstanding principal amount of the Loan at any time exceeds \$2,000,000 or the Aggregate Loan Values, Borrower shall immediately pay the Lender an amount equal to such excess as a payment on the principal amount of the Loan.

2.1.5 Each borrowing under the Loan shall be effected by crediting the amount thereof to the regular checking account of Borrower's bank.

2.1.6 Notwithstanding the other provisions of this Agreement, the obligation of Lender to make the Loans hereunder shall cease and all remaining principal, interest and other charges and fees due with respect to the Loans and the Notes shall be immediately due and payable by Borrower at any time upon demand by Lender.

2.2 Interest.

2.2.1 Rates of Interest. Interest shall accrue on the principal amount of the Loan outstanding at the end of each day from the respective dates such principal amounts are advanced until paid (whether at stated maturity, acceleration, or otherwise) at the Prime Rate of Compass Bank. Interest as so determined shall be adjusted daily to reflect changes in the Prime Rate of Compass Bank, and shall be payable monthly, if not sooner demanded.

2.2.2 Default Rate of Interest. Upon and after the occurrence of an Event of Default, and during the continuation thereof, the principal amount of all Loans shall bear interest at a rate per annum equal to the Default Rate. Borrower acknowledges and agrees that the provisions herein and in the Note relating to the Default Rate represent a fair and reasonable estimate by Borrower and Lender of a fair average compensation for the loss that may be sustained by Lender due to the failure of Borrower to make timely payments with respect to the Obligations and for the cost and expenses that may be incurred by Lender by reason of the occurrence of an Event of Default, the parties recognizing that the damages caused by such extra administrative expenses and loss of the use of funds is impracticable or extremely difficult to ascertain or estimate. Interest at the Default Rate shall be paid without prejudice to the rights of Lender to collect any other amounts provided to be paid hereunder.

2.3 Loan Requests.

2.3.1 Whenever Borrower desires to borrow pursuant to this Agreement, Borrower shall give Lender prior written notice (or telephonic notice promptly confirmed in writing) of such borrowing request (a "Notice of Borrowing").

2.3.2 Unless payment is otherwise timely made by Borrower, the becoming due of any amount required to be paid under this Agreement, the Note or any of the other Loan Documents, as principal, accrued interest, fees or other charges, including, without limitation, any amount due with respect to the Loan, shall be deemed irrevocably to be a request by Borrower from Lender for a Loan on the due date of, and in an aggregate amount required to pay, such principal, accrued interest, fees or other charges and the proceeds of each such Loan may be disbursed by Lender by way of direct payment of the relevant obligation and shall bear interest at the Default Rate.

2.4 Computation of Interest and Fees. Interest hereunder shall be calculated daily and shall be computed on the actual number of days elapsed over a year of 360 days.

2.5 Loan Account. Lender shall enter disbursements hereunder or under the Note as debits to Loan Accounts maintained in the name of Borrower and shall also record in said Loan Accounts all payments made by any Borrower and all proceeds of Collateral which are finally paid to Lender, and may record therein, in accordance with customary accounting practice, all charges and expenses properly chargeable to Borrower hereunder.

2.6 Prepayment. Subject to the provisions hereof, Borrower shall have the right at any time and from time to time to prepay the Loan, in whole or in part, without premium or penalty but with accrued interest to the date of such prepayment on the amounts prepaid

2.7 Use of Proceeds. Borrower shall use the proceeds of the Loan for working capital and for no other purpose.

ARTICLE III **CONDITIONS OF LENDING**

Lender shall not be obligated to make the Loan, or any advance under the Loan, unless at the time thereof the following conditions shall have been met:

3.1 Corporate Proceedings. All proper corporate proceedings shall have been taken by Borrower to authorize this Agreement and the transactions contemplated hereby.

3.2 Documentation. All instruments and proceedings in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to Lender, and Lender shall have received on the date of this Agreement copies of all documents, including records of corporate proceedings, which it may have requested in connection therewith, including, without limitation, certified copies of resolutions adopted by the Board of Directors of the Borrower, certificates of good standing, and certified copies of the Articles of Incorporation and By-Laws, and all amendments thereto, of the Borrower.

3.3 Loan Documents. Lender shall have received executed copies of all instruments evidencing security for the Loans and copies of the insurance policies and related certificates of insurance referred to in Sections 6.1 and 9.6 of this Agreement.

3.4 No Default. No event shall have occurred or be continuing which constitutes an Event of Default or which would constitute an Event of Default with the giving of notice or the lapse of time or both; and neither the business nor assets nor the condition, financial or otherwise, of Borrower shall have been adversely affected in any material manner as the result of any fire, explosion, accident, strike, riot, condemnation, act of God, or any other event or development.

3.5 Reports. Lender shall have received all reports and information from Borrower called for under the Agreement as and when due.

3.6 Incumbency Certificate. Lender shall have received an incumbency certificate, dated as of the date of this Loan Agreement, executed by the Secretary or Assistant Secretary of Borrower, which shall identify by name and title and bear the signature of the officer of such Borrower authorized to sign this Loan Agreement and the Notes on behalf of the Borrower. The Lender shall be entitled to rely upon such incumbency certificate in completing the transactions contemplated herein or in any Loan Document and in all its other dealings with Borrower.

3.7 Consents. Lender shall have received consents and agreements of the landlords of each of the premises leased by Borrower on which the Collateral is located as provided in Section 4.1 hereof, all in form satisfactory to Lender.

3.8 Disbursement Authorization. Borrower shall have delivered to Lender such disbursement authorizations, draw requests, and other documents and writings as Lender shall have requested evidencing Borrower's request for disbursement of funds.

3.9 Additional Documents. Lender shall have received such additional legal opinions, certificates, proceedings, instruments and other documents as the Lender or its counsel may reasonably request to evidence (i) compliance by the Borrower with legal requirements, (ii) the truth and accuracy, as of the date of this agreement, of the representations of the Borrower contained herein, and (iii) the due performance or satisfaction by the Borrower, at or prior to the date hereof, of all agreements required to be performed and all conditions required to be satisfied by the Borrower pursuant hereto.

ARTICLE IV **SECURITY FOR LOAN**

4.1 Security. The Loan and each Note shall be secured by each of the following:

(a) A second priority security interest in Borrower's Accounts, Inventory and General Intangibles, and a first priority security interest in Equipment (to the extent pledged to Lender pursuant to separate Security Agreement), and other properties and interests as provided for in Section 8.1 and other parts of Article VIII hereof;

(b) A real estate mortgage on Borrower's properties located in Jefferson and Morgan Counties, Alabama.

The Borrower agrees to execute and deliver, or cause the execution and delivery of, such security agreements, deeds of trust, mortgages, assignments, guaranties, consents, subordination agreements, title certificates, and financing statements as may be required by Lender to evidence such security, all in form satisfactory to Lender, as well as such consents and agreements of the landlords of each of the premises leased by Borrower on which the Collateral is located, all in form satisfactory to Lender.

ARTICLE V

REPRESENTATIONS, WARRANTIES AND GENERAL COVENANTS

Borrower represents, warrants and covenants to and with Lender, which representations, warranties and covenants shall survive until the Obligations are indefeasibly satisfied in full, that:

5.1 Organization and Qualification. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation has the corporate power to own its properties and to carry on its business as now being conducted; and is duly qualified to do business and is in good standing in every jurisdiction in which the character of the properties owned by it or in which the transaction of its business makes its qualification necessary.

5.2 Corporate Power and Authorization. Borrower has full power and authority to enter into this Agreement, to borrow hereunder, to execute and deliver the Notes and the other Loan Documents and to incur the obligations provided for herein, all of which have been authorized by all proper and necessary corporate action.

5.3 Enforceability. This Agreement and each of the other Loan Documents constitute, and each Note when executed and delivered for value received will constitute, a valid and legally binding obligation of Borrower enforceable in accordance with their respective terms and will not violate, conflict with, or constitute any default under any law, government regulation, Borrower's Articles of Incorporation or By-Laws, or any other agreement or instrument binding upon Borrower.

5.4 Pending Actions. Except with respect to asbestos personal injury litigation and a work place discrimination claim brought by Sheffield, Borrower is not a defendant, or a plaintiff against whom a counterclaim or crossclaim has been asserted, in any civil or criminal action, suit or litigation, and no action or investigation is pending or, so far as Borrower's officers and directors know, threatened before or by any court or administrative agency which might result in any material adverse change in the financial condition, operations or prospects of Borrower

5.5 Financial Statements. The financial statements of Borrower heretofore delivered to Lender and all other financial statements and reports furnished by Borrower to Lender are complete and correct and fairly present the financial condition of Borrower and the results of its operations and transactions as of the dates and for the periods referred to and have been prepared in accordance with GAAP applied on a consistent basis throughout the periods involved. There are no liabilities, direct or indirect, fixed or contingent, of Borrower as of the date of such financial statements which

are not reflected therein or in the notes thereto. Neither said financial statements nor any other financial statements, reports, and information furnished by Borrower to Lender contains any untrue statement of a material fact or omits a material fact necessary to make the statements contained therein or herein not misleading. There is no fact which Borrower has failed to disclose to Lender in writing which materially affects adversely or, so far as Borrower can now foresee, will materially affect adversely the Collateral, business, prospects, profits or condition (financial or otherwise) of Borrower or the ability of Borrower to perform this agreement.

5.6 Title to Properties. Borrower has good and marketable title to all of its assets, other than the Collateral, subject to no Lien, mortgage, pledge, encumbrance, or charge of any kind except inchoate Liens arising by operation of law for obligations which are not yet due and except for Permitted Liens. Borrower enjoys peaceable and undisturbed possession under all leases under which it is operating, and none of such leases contain any provisions which may materially and adversely affect or impair the operations of the Borrower, and all of such leases are valid and subsisting and in full force and effect.

5.7 Taxes. Borrower has filed all federal, state and local tax returns which are required to be filed and has paid, or made adequate provision for the payment of, all taxes which have or may become due pursuant to said returns or to assessments received by Borrower, including, without limitation, all applicable federal, state, and local employee withholding taxes.

5.8 Title to Collateral. Except for Permitted Liens, Borrower is, or as to Collateral to be acquired after the date hereof will be, the sole owner of the Collateral free from any adverse Liens, security interests or other encumbrances. Borrower shall defend the Collateral against all claims and demands of all other parties who at any time claim any interest in the Collateral.

5.9 Place of Business. Borrower's chief executive office is located at 4625 Valleydale Road, Birmingham Alabama 35242 and it has not changed the location of its chief executive office within the last five (5) years. The Inventory and Equipment are and shall be located only at the locations listed on Exhibit "D" to this Agreement. Except as indicated on said exhibit, the real estate constituting each said location is owned by Borrower. With respect to locations not owned by Borrower, said exhibit sets forth the name and address of each landlord, the location of the property, and the remaining term of the lease. Borrower has separately furnished to Lender true and correct copies of the lease agreements for each said parcel.

5.10 Full Disclosure. All information furnished by Borrower to the Lender concerning the Borrower, its financial condition, the Collateral, or otherwise for the purpose of obtaining credit or an extension of credit, is, or will be at the time the same is furnished, accurate and correct in all material respects and complete insofar as completeness may be necessary to give the Lender a true and accurate knowledge of the subject matter.

5.11 Borrower's Name. Borrower has not changed its name or been known by any other name within the last five (5) years, nor has it been the surviving corporation in a merger effected within the last five (5) years. Borrower does not now use nor has it ever used any trade or fictitious name in the conduct of its business.

5.12 Existing Debt. Borrower is not in default with respect to any of its existing Debt or with respect to any material agreement to which Borrower is a party.

5.13 Insolvency. Borrower is now and, after giving effect to the transactions contemplated hereby, at all times will be, solvent.

5.14 Subsidiaries. Borrower has no subsidiaries.

5.15 Environmental Matters. Borrower is in compliance with all Environmental Regulations and with all other federal, state and local laws and regulations relating to the environment and pollution, including such laws and regulations regulating hazardous, radioactive and toxic materials and underground petroleum products storage tanks. No assessment, notice of (primary or secondary) liability or notice of financial responsibility, and no notice of any action, claim, investigation, proceeding, or inquiry to determine such liability or responsibility, or the amount thereof, or to impose civil penalties has been received by Borrower, and there are no facts, conditions or circumstances known to Borrower which could result in any investigation or inquiry if all such facts, conditions, and circumstances, if any, were fully disclosed to the applicable governmental authority. Borrower has paid any environmental excise taxes due and payable, including without limitation, those imposed pursuant to Sections 4611, 4661, or 4681 of the Internal Revenue Code of 1986, as amended from time to time. Borrower has not obtained and is not required to obtain any permits, licenses, or similar authorizations to construct, occupy, operate or use any buildings, improvements, fixtures or equipment in connection with its business by reason of any Environmental Regulations. No oil, toxic or hazardous substances or solid wastes have been disposed of or released by Borrower in connection with the operation of its business and Borrower will not dispose of or release oil, toxic or hazardous substances or solid wastes at any time in its operation of its business (the terms "hazardous substance" and "release" shall have the meanings specified in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and the terms "solid waste" and "disposal," "dispose" or "disposed" shall have the meanings specified in the Resource Conservation and Recovery Act of 1976, as amended ("RCRA"), except that if such acts are amended to broaden the meanings thereof, the broader meaning shall apply herein).

5.16 Ownership. All issued and outstanding capital stock of the Borrower is owned as follows: Wayne W. Killion, Sr., 55%; and Wayne W. Killion, Jr., 45%. Except as set forth above, there are not outstanding any warrants, options, or rights to purchase any shares of capital stock of Borrower, nor does any Person have a Lien upon any of the capital stock of Borrower.

5.17 Inventory. All Inventory has been produced, and during the term hereof will be produced, in compliance with the requirements of the Federal Fair Labor Standards Act. No Inventory will at any time be, stored with a bailee, warehouseman or similar party without sixty (60) days prior notice to Lender, and upon receipt of such notice, Lender shall be entitled to declare said Inventory ineligible.

5.18 Trade Relations. There exists no actual or threatened termination, cancellation or limitation of, or any modification or change in, the business relationship between Borrower and any customer or any group of customers whose purchases individually or in the aggregate are material to the business of Borrower, or with any material supplier, and there exists no present condition or state of facts or circumstances which would materially affect adversely Borrower or prevent Borrower from conducting such business after the consummation of the transaction contemplated by this Agreement in substantially the same manner in which it has heretofore been conducted.

5.19 Partnerships. Borrower is not a partner or joint venturer with any other Person or a participant in any business enterprise other than its own for which it is generally liable, nor does Borrower have any contingent liabilities of any description other than as indicated in the financial statements heretofore delivered to Lender

5.20 Surety Obligations. Borrower is not obligated as guarantor, surety or indemnitor under any indemnity, guaranty, surety or similar bond or other contract issued or entered into any agreement to assure payment, performance or completion of performance of any undertaking or obligation of any Person.

5.21 No Approval. No authorization or approval or other action by, and no notice to or filing with, any federal, state, or local government body, agency, or authority is required for the due execution, delivery, and performance by Borrower of this Agreement, the Notes, or the Loan Documents.

5.22 Racketeering. Borrower is not engaged in any activity that might constitute a pattern of racketeering activity or in any other conduct that might subject all or a material portion of Borrower's assets to forfeiture.

5.23 Patents, Trademarks, Copyrights and Licenses. Borrower owns or possesses all the patents, trademarks, service marks, trade names, copyrights and licenses necessary for the present and planned future conduct of its business without any known conflict with the rights of others. All patents, trademarks, service marks, trade names, copyrights, licenses and other similar rights owned or used by Borrower are listed on Exhibit "P" attached hereto and made a part hereof

5.24 Representations True. No representation or warranty by the Borrower contained herein or in any certificate or other document furnished by the Borrower pursuant hereto contains any untrue statement of material fact or omits to state a material fact necessary to make such representation or warranty not misleading in light of the circumstances under which it was made.

ARTICLE VI

GENERAL COVENANTS

Borrower agrees and covenants that until the Obligations have been indefeasibly paid in full and until the Lender has no further obligation to make advances under the Loan, Borrower shall:

6.1 Insurance. Maintain insurance with insurance companies satisfactory to Lender on such of its properties, in such amounts and against such risks as is customarily maintained in similar businesses operating in the same vicinity, and shall file with Lender upon request, from time to time, a detailed list of the insurance then in effect, stating the names of the insurance companies, the amounts and rates of the insurance, dates of expiration thereof, and the properties and risks covered thereby, and, within 10 days after notice in writing from Lender, shall obtain such additional insurance as Lender may reasonably request. All such policies shall name the Lender as a named insured and provide that any losses payable thereunder shall (pursuant to loss payable clauses, in form and content acceptable to the Lender, to be attached to each policy) be payable to the Lender, and provide that the insurance provided thereby, as to the interest of the Lender, shall not be invalidated by any act or neglect of the Borrower, nor by the commencing of any proceedings by or against the Borrower in bankruptcy, insolvency, receivership or any other proceedings for the relief of a debtor, nor by any foreclosure, repossession or other proceedings relating to the property insured, nor by any occupation of such property or the use of such property for purposes more hazardous than permitted in the policy. Borrower hereby assigns to Lender all right to receive proceeds, directs any insurer to pay all proceeds directly to the Lender, and authorizes the Lender to endorse any check or draft for such proceeds and apply the same toward satisfaction of the Obligations. The Borrower shall furnish to the Lender insurance certificates, in form and substance satisfactory to the Lender, evidencing compliance by it with the terms of this Section and, upon the request of the Lender at any time, the Borrower shall furnish the Lender with photostatic copies of the policies required by the terms of this Section. The Borrower will cause each insurer under each of the policies to agree (either by endorsement upon such policy or by letter addressed to the Lender) to give the Lender at least 10 days' prior written notice of the cancellation of such policies in whole or in part or the lapse of any coverage thereunder. Borrower agrees that it will not take any action or fail to take any action which action or inaction would result in the invalidation of any insurance policy required hereunder. At least 10 days prior to the date the premiums on each such policy or policies shall become due and payable, the Borrower shall furnish to the Lender evidence of the payment of such premiums. Borrower shall furnish to Lender such evidence of insurance as Lender may require.

6.2 Corporate Existence: Qualification. Maintain its corporate existence and, in each jurisdiction in which the character of the property owned by it or in which the transaction of its business makes its qualification necessary, maintain good standing.

6.3 Taxes. During each fiscal year, accrue all current tax liabilities of all kinds, all required withholding of income taxes of employees, all required old age and unemployment contributions, all required payments to employee benefit plans, and pay the same when they become due.

6.4 Compliance with Laws. Comply with all Applicable Laws, including, without limitation, Environmental Regulations, and pay all taxes, assessments, charges, claims for labor, supplies, rent, and other obligations. Specifically, Borrower shall pay when due all taxes and assessments upon the Collateral, this Agreement, the Notes, or any Loan Document, including, without limitation, any stamp taxes or intangibles taxes imposed by virtue of the transactions outlined herein.

6.5 Annual Financial Statements. Within 90 days after the close of each fiscal year, furnish Lender with annual audited financial statements of Borrower consisting of balance sheets, operating statements and such other statements as Lender may reasonably request, for the period(s) involved, prepared in accordance with GAAP consistently applied for the period involved and for the preceding fiscal year and certified as correct by independent certified public accountants acceptable to the Lender. At the time of furnishing said financial statements, Borrower shall furnish Lender with (a) a certificate from the President and the chief financial officer of Borrower stating that they have reviewed this Agreement and the affairs of the Borrower and that to the best of their knowledge and belief they are unaware of the occurrence of an event which constitutes an Event of Default hereunder or which would constitute such an Event of Default with the giving of notice or the lapse of time or both, and, if so, stating the facts with respect thereto, said certificate to be in the form of Exhibit "G" hereto, and (b) a letter from such independent certified public accountants stating that the Lender may rely on such financial statements and their opinion with respect thereto. All such financial statements shall be on both a consolidated and a consolidating basis for each entity constituting Borrower.

6.6 Interim Financial Statements. Within 30 days after the close of each calendar month, furnish Lender with unaudited monthly and year-to-date financial statements of Borrower, consisting of balance sheets and operating statements and a listing of all contingent liabilities of the Borrower for the periods involved and such other statements as Lender may request, prepared in accordance with GAAP applied on a basis consistent with the financial statement(s) previously furnished to Lender, taken from the books and records of Borrower.

6.7 Visits and Inspections. Permit persons designated by Lender to inspect any and all of the property and corporate and financial books and records of Borrower and to discuss its affairs with its officers and employees at such reasonable times as Lender shall request and furnish Lender with such miscellaneous information as it may request.

6.8 Payments on Note. Duly and punctually pay the principal and interest on the Note, in accordance with the terms of this Agreement and of the Note, and pay all other Debt of Borrower reflected on the financial statements delivered to Lender and referred to in Section 5.5 hereof and all other Debt incurred after the date hereof in accordance with the terms of such Debt, it being understood, however, that this Section shall not be deemed to permit any Debt in violation of the provisions of Sections 7.1 and 7.2 hereof.

6.9 Conduct of Business. Conduct its business as now conducted and do all things necessary to preserve, renew and keep in full force and effect its rights, privileges and franchises necessary to continue its business.

6.10 Maintenance of Properties. Keep its properties in good repair, working order and condition, reasonable wear and tear excepted, and from time to time make all needed and proper repairs, renewals, replacements, additions, and improvements thereto and comply with the provisions of all leases to which it is a party or under which it occupies property so as to prevent any loss or forfeiture thereof or thereunder.

6.11 Additional Documents. Join the Lender in executing any security agreements, assignments, consents, financing statements or other instruments, in form satisfactory to the Lender, as the Lender may from time to time request in connection with the Collateral and the other security for the Loan referred to in Section 4.1 hereof.

6.12 Notice to Lender. Immediately notify the Lender of (i) any event causing a material loss or depreciation in value of the Collateral and the amount of such loss or depreciation, (ii) if Borrower becomes aware of the occurrence of any Event of Default or of any fact, condition or event that, with the giving of notice or passage of time, or both, could become an Event of Default or of the failure of the Borrower to observe any of its undertakings hereunder, or (iii) any material lawsuit involving Borrower.

6.13 Collateral Reports. Furnish to Lender at least monthly (and more frequently if requested by Lender) a detailed accounts receivable aging report, a detailed accounts payable aging report, and an inventory report, all in form and substance, and containing such detail and information, as Lender shall request and furnish to Lender copies of all physical inventory listings when prepared by Borrower.

6.14 Subordination of Debt. Provide Lender with a debt subordination agreement, in form and substance satisfactory to Lender, executed by Borrower and any Person who is an officer, director, shareholder or Affiliate of Borrower to whom Borrower is or hereafter becomes indebted, subordinating in right of payment and claim all of Debt owed by Borrower to any said Person and any future advances thereon to the full and final payment of the Obligations.

6.15 Collection of Accounts. Diligently pursue collection of all Accounts and other amounts due Borrower by others, including Affiliates of Borrower.

6.16 Landlord and Storage Agreements. Provide Lender with copies of all agreements between Borrower and any landlord or warehouseman which owns any premises at which any inventory or other Collateral may, from time to time, be kept.

6.17 Business Records. Keep, and cause each Subsidiary to keep, adequate records and books of account with respect to its business activities in which proper entries are made in accordance with GAAP reflecting all its financial transactions.

6.18 Financial Covenants. Maintain at all times that this Agreement is in effect the following:

- (a) a positive Net Worth.
- (b) maintain sales of not less than \$16,000,000.

6.19 Filings. Deliver to Lender a copy of any filings with any governmental body, agency or authority which regulates Borrower's business (except for tax returns filed in the ordinary course of business).

ARTICLE VII

NEGATIVE COVENANTS

Until the Obligations have been indefeasibly repaid and satisfied in full and until the Lender has no further obligation to make advances under the Loan, without the prior written consent of Lender, the Borrower shall not:

7.1 Indebtedness. Except (i) as reflected on the Borrower's balance sheets, (ii) loans against cash surrender values, (iii) its obligation of guaranty of Sunbelt Insulation Co., Inc.'s performance and payment bonding line, and (iv) as permitted or contemplated by this Agreement, create, incur, assume or suffer to exist any Debt or obligation for money borrowed (except obligations to Lender), or guarantee, or endorse, or otherwise be or become contingently liable in connection with the obligations of any Person (including, without limitation, any Affiliate), in an amount exceeding \$25,000 in the aggregate at any one time, except:

7.1.1 Indebtedness for taxes not at the time due and payable or which are being actively contested in good faith by appropriate proceedings and against which reserves deemed adequate by Lender have been established by Borrower, but only if the non-payment of such taxes being contested does not result in a Lien upon any property of Borrower that has priority over the Lien held by Lender;

7.1.2 Contingent liabilities arising out of the endorsement of negotiable instruments in the ordinary course of collection or similar transactions in the ordinary course of business; and

7.1.3 Accounts payable to trade creditors which are not aged more than one hundred twenty (120) days from billing date and current operating expenses (other than for borrowed money) which are not more than sixty (60) days past due, in each case incurred in the ordinary course of business and paid within such time period, unless the same are actively being contested in good faith and by appropriate and lawful proceedings and Borrower shall have set aside such reserves, if any, with respect thereto as have been recommended by independent public accountants.

7.2 Liens and Security Interests. Create, incur, assume, or suffer to exist any mortgage, security deed, deed of trust, security interest, pledge, encumbrance, Lien or charge of any kind (including charges on property purchased under conditional sales or other title-retention agreements) on any of its property or assets, now owned or hereafter acquired, except for the following (all of which are referred to herein as "Permitted Liens"):

7.2.1 Liens for taxes not yet due or which are being contested in good faith by appropriate proceeding and against which reserves deemed adequate by Lender have been set up (excluding any Lien imposed pursuant to any of the provisions of ERISA);

7.2.2 Other Liens, charges and encumbrances incidental to the conduct of its business or the ownership of its property and assets and created by operation of law;

7.2.3 Purchase money Liens and encumbrances created to secure the indebtedness permitted by Section 7.1 hereof;

7.2.4 Liens, charges and encumbrances in favor of the Lender; and

7.2.5 Liens, charges and encumbrances reflected on Exhibit "C" to this Agreement.

7.3 Dividends and Distributions. Declare any dividends on any shares of any class of its capital stock, or apply any of its property or assets to the purchase, redemption or other retirement of, or set apart any sum for the payment of any dividends on, or for the purchase, retirement of, or make any other distribution by reduction of capital or otherwise in respect of, any shares of any class of capital stock of the Borrower; provided, however, that during such time as Borrower maintains an effective election to be taxed under the provisions of Chapter "S" of the Internal Revenue Code of 1978, as amended, Borrower shall be entitled to distribute to its shareholders in each year an amount not to exceed that portion of the federal income tax liability incurred by each said shareholder on income tax returns for the prior year which resulted from its holdings of shares in Borrower.

7.4 Affiliate Transactions. Purchase, acquire or lease property from, or sell, transfer or lease any property to, any Affiliate of Borrower, except in the ordinary course of Borrower's business and under terms and conditions which would apply if disinterested parties were involved or except as otherwise consented to by Lender.

7.5 Financing Statements. Permit any financing statement (except Lender's financing statements) to be on file with respect to the Collateral.

7.6 Location of Collateral. Change the locations at which the Collateral is maintained; change the name, identity, or corporate structure of Borrower; adopt or make use of any fictitious or trade name not disclosed elsewhere in this Agreement; or change the location of its chief executive office.

7.7 Destruction of Collateral. Waste or destroy the Collateral or use it in violation of any statute or ordinance.

7.8 Merger or Consolidation. Enter into any merger or consolidation or acquire all or substantially all of the assets of any Person; or sell, lease, or otherwise dispose of any of its assets in an aggregate amount exceeding \$500,000 during any fiscal year, except sales in the ordinary course of its business.

7.9 Loans or Advances. Make loans or make advances or pay any management or similar fees to any Person in an amount in excess of \$25,000 at any time.

7.10 Capital Expenditures. Make any Capital Expenditures in any fiscal year exceeding a total of \$500,000.

7.11 Acquisitions. Acquire an additional business or subsidiary through the purchase of obligations or stock of or any other interest in any Person, except (i) Borrower may purchase direct obligations of the United States of America or certificates of deposit or other investments issued by the Lender or by any Lender designated in writing by the Lender and (ii) Borrower shall be permitted to purchase and to dispose of its stock in other corporations provided Borrower shall not invest more than \$100,000 in the stock of another company without prior consent of Lender, which consent will not be unreasonably withheld.

7.12 Prepayment of Debt. Prepay any Debt except Debt to the Lender; provided, however, that Borrower may take ordinary trade discounts on purchases made in the ordinary course of business and Borrower may use insurance proceeds to repay any Debt secured by the properties and assets to which the proceeds relate and Borrower may prepay any other Debt provided said Debt does not exceed the amounts permitted to be borrowed by Borrower under Section 7.1 hereof.

7.13 Lease Transactions. Enter into any sale and lease-back arrangement, either directly or indirectly, which transaction amounts to a financing transaction or a source of capital for Borrower, which requires aggregate expenditures on the part of Borrower in excess of \$100,000.

7.14 Amendments. Amend any instrument evidencing a Permitted Lien or the indebtedness secured thereby so that said Permitted Lien or indebtedness causes a violation of the terms hereof.

7.15 Salaries. Increase the salary and fringe benefits of any officer or director of Borrower (excluding Incentive Bonus Plan) by more than 20% in any fiscal year from the amount paid in the previous fiscal year.

7.16 Deposit of Funds. Deposit proceeds of the Collateral into any account other than the Special Collection Account or in other accounts approved by Lender.

7.17 Adverse Transactions. Enter into any transaction, or permit any Subsidiary to enter into any transaction, which materially and adversely affects or may materially and adversely affect the Collateral or Borrower's ability to repay the Obligations or permit or agree to any material extension, compromise or settlement or make any change or modification of any kind or nature with respect to any Account, including any of the terms relating thereto, other than discounts and allowances in the ordinary course of business.

7.18 Subsidiary Acquisitions. Hereafter create any Subsidiary or divest itself of any material assets by transferring them to any Subsidiary without consent of Lender, which consent will not be unreasonably withheld.

7.19 Subsidiary Divestitures. Transfer, sell, pledge, encumber or otherwise assign any shares of stock or other interest in any Subsidiary or permit any Subsidiary to sell or otherwise

dispose of all of substantially all of its assets, without the consent of Lender, which consent will not be unreasonably withheld.

7.20 Partnerships or Joint Ventures. Become or agree to become a general or limited partner in any general or limited partnership or a joint venturer in any joint venture, without the consent of Lender, which consent will not be unreasonably withheld, except that Borrower may engage in such transactions without the prior consent of Lender if they do not impose on Borrower liability in excess of \$100,000 or result in the investment by Borrower of funds in excess of \$100,000.

ARTICLE VIII

GRANT OF SECURITY INTEREST

8.1 Security Interest. As security for the payment of the Loans and all other Obligations, now existing or in the future incurred, and including any extensions or renewals or changes in form of the Loans, any Overadvances, and any other Debt of Borrower to the Lender, and all costs and expenses of collection thereof, including, without limitation, attorneys' fees, Borrower hereby assigns to Lender and grants to Lender a security interest in and Lien upon the following:

- (a) All of Borrower's Accounts;
- (b) All of Borrower's General Intangibles;
- (c) All of Borrower's Inventory;
- (d) Borrower's Equipment with title certificates to be assigned by Borrower to Lender;
- (e) All of proceeds and products, as the case may be, of Borrower's Accounts, General Intangibles, Equipment, and Inventory.
- (f) All monies and other property of any kind, real, personal, or mixed, and tangible or intangible, now or at any time or times hereafter, in the possession or under the control of Lender or a bailee of Lender;
- (g) All accessions to, substitutions for and all replacements, products and cash and non-cash proceeds of (a) through (f) above, including, without limitation, proceeds of and unearned premiums with respect to insurance policies insuring any of the Collateral;
- (h) All books and records (including, without limitation, customer lists, credit files, magnetic, digital and laser tapes and disks, electronic and computer storage media, computer programs, print-outs, and other computer materials and records) of Borrower pertaining to any of (a) through (g) above.

8.2 Sale of Inventory. Until the occurrence of an Event of Default hereunder, until demand, or until the Termination Date, whichever occurs first, Borrower may use and dispose of the Inventory in the ordinary course of business where such is consistent with this Agreement.

8.3 Notice to Account Debtors. Lender shall have the right to notify the Account Debtors obligated on any or all of the Accounts to make payment thereof directly to Lender and to take control of all proceeds of any such Accounts, which right Lender may exercise at any time whether or not an Event of Default exists hereunder and whether or not Borrower was theretofore making collections thereon. Any such notice by the Lender to such Account Debtors shall be given by an officer of the Lender. Borrower, if requested by Lender, shall stamp or cause to be stamped on each Account item in legible letters "Pledged to Shook & Fletcher Supply Co. of Alabama, Inc." and shall turn over physical possession of the Accounts to Lender. Borrower authorizes Lender to sign and endorse Borrower's name upon any check, draft, money order, or other form of payment of any Account item and to sign and endorse satisfactions and releases of Account items in Borrower's name. Until such time as Lender elects to exercise the right to collect and enforce said Accounts, Borrower is authorized, as agent of the Lender, to collect and enforce said Accounts in Borrower's name. The costs of such collection and enforcement, including attorney's fees and out-of-pocket expenses and all other expenses and liabilities resulting therefrom, shall be borne solely by Borrower whether the same are incurred by the Lender or Borrower.

8.4 Verification of Accounts. Whether or not an Event of Default has occurred, any of Lender's officers, employees or agents shall have the right, at any time or times hereafter, in the name of Lender, or any designee of Lender or Borrower, to verify the validity, amount or any other matter relating to any Accounts by mail, telephone, telegraph, or otherwise. Borrower shall cooperate fully with Lender in an effort to facilitate and promptly conclude any such verification process.

8.5 Accounts Evidenced by Instruments. If any of Borrower's Accounts are or should become evidenced by promissory notes, trade acceptances, chattel paper, chattel mortgages, conditional sales contracts, or other instruments, Borrower will immediately deliver same to Lender, endorsed or assigned with recourse to the Lender's order and, regardless of the form of such endorsement or assignment, Borrower hereby waives presentment, demand, notice of dishonor, protest and notice of protest and all other notices with respect thereto.

8.6 Attorney-in-Fact. Borrower hereby irrevocably designates, makes, constitutes and appoints Lender (and all Persons designated by Lender) as Borrower's true and lawful attorney (and agent-in-fact) and Lender, or Lender's agent, may, without notice to Borrower and in either Borrower's or Lender's name, but at the cost and expense of Borrower:

8.6.1 At such time or times hereafter as Lender or said agent, in its sole discretion, may determine, endorse Borrower's name on any checks, notes, acceptances, drafts, money orders or any other evidence of payment or proceeds of the Collateral which come into the possession of Lender or under Lender's control; and

8.6.2 At such time or times as Lender or its agent in its sole discretion may determine (and irrespective of whether an Event of Default exists): (i) demand payment of the

Accounts from the Account Debtors, enforce payment of the Accounts by legal proceedings or otherwise, and generally exercise all of Borrower's rights and remedies with respect to the collection of the Accounts; (ii) settle, adjust, compromise, discharge or release any of the Accounts or other Collateral; (iii) sell or collect any of the Accounts or other Collateral upon such terms, and for such amounts and at such time or times as Lender deems advisable; (iv) take possession, in any manner, of any item of payment or proceeds relating to any Collateral and apply the same to the Obligations; (v) prepare, file and sign Borrower's name to a proof of claim in bankruptcy or similar document against any Account Debtor or to any notice of lien, assignment or satisfaction of lien or similar document in connection with any of the Collateral; (vi) receive, open and dispose of all mail addressed to Borrower and to notify postal authorities to change the address for delivery thereof to such address as Lender may designate; (vii) endorse the name of Borrower upon any of the items of payment or proceeds relating to any Collateral and deposit the same to the account of Lender or any other Lender on account of the Obligations; (viii) endorse the name of Borrower upon any chattel paper, document, instrument, invoice, freight bill, bill of lading or similar document or agreement relating to the Accounts, Inventory and any other Collateral; (viii) sign the name of Borrower to verifications of the Accounts and notices thereof to Account Debtors; (x) use the information recorded on or contained in any data processing equipment and computer hardware and software relating to the Accounts, Inventory, and any other Collateral and to which Borrower has access; (xi) make and adjust claims under policies of insurance; and (xii) for and in the name of Borrower to give instructions and direct any bank or financial institution in which proceeds of the Collateral are deposited to turn over said proceeds to Lender; and (xiii) do all other acts and things necessary, in Lender's determination, to fulfill Borrower's obligations under this Agreement.

ARTICLE IX

ADDITIONAL REPRESENTATIONS, COVENANTS, AND

AGREEMENTS RELATING TO COLLATERAL

9.1 Reliance on Statements. With respect to all Accounts, Borrower represents and warrants to Lender that Lender may rely, in determining which Accounts are Eligible Accounts, on all statements and representations made by Borrower with respect to any Account or Accounts, and unless otherwise indicated in writing to Lender, that with respect to each Account:

9.1.1 It is genuine and in all material respects what it purports to be, and it is not evidenced by a judgment;

9.1.2 It arises out of a completed, bona fide sale and delivery of goods or rendition of services by Borrower in the ordinary course of its business and in accordance with the terms and conditions of all purchase orders, contracts or other documents relating thereto and forming a part of the contract between Borrower and the Account Debtor;

9.1.3 It is for a liquidated amount maturing as stated in the duplicate invoice covering such sale or rendition of services, a copy of which has been furnished or is available to Lender;

9.1.4 Such Account, and Lender's security interest therein, is not, and will not be in the future, subject to any offset, Lien, deduction, defense, dispute, counterclaim or any other adverse condition except for disputes resulting in returned goods where the amount in controversy is deemed by Lender to be immaterial, and each such Account is absolutely owing to Borrower and is not contingent in any respect or for any reason;

9.1.5 Borrower has made no agreement with any Account Debtor thereunder for any deduction therefrom, except discounts or allowances which are granted by Borrower in the ordinary course of its business for prompt payment and which are reflected in the calculation of the net amount of each respective invoice related thereto;

9.1.6 There are no facts, events or occurrences which in any way materially impair the validity or enforceability thereof or tend to reduce the amount payable thereunder from the face amount of the invoice and statements delivered to Lender with respect thereto;

9.1.7 To the best of Borrower's knowledge, the Account Debtor thereunder (i) had the capacity to contract at the time any contract or other document giving rise to the Account was executed and (ii) such Account Debtor was and is Solvent;

9.1.8 Borrower has no knowledge of any fact or circumstance which would impair the validity or collectibility of the Account, and to the best of Borrower's knowledge there are no proceedings or actions which are threatened or pending against any Account Debtor thereunder which might result in any material adverse change in such Account Debtor's financial condition or the collectibility of such Account; and

9.1.9 Borrower will have paid or provided for the payment of all taxes arising from the transaction creating the Account.

9.2 Notification. Borrower shall immediately notify Lender of any event, occurrence or circumstance which causes any representation pertaining to any Account in excess of \$500,000 set forth in Section 9.1 above to cease to be true in all material respects, and Borrower will promptly notify Lender (i) if any Account Debtor or any Affiliate of any Account Debtor has or may have any right of setoff, deduction, or defense against any Account or (ii) if any such Account Debtor or Affiliate of such Account Debtor has or may have a contractual or business relationship with Borrower such that at any time such right may exist or be asserted or (iii) if Borrower ships any inventory or goods or furnishes any services to any Person which has or may have any right of setoff, deduction or defense against any asset, including any Account, of Borrower.

9.3 Affirmation Of Representations. Each request for a loan or advance made by Borrower pursuant to this Agreement or any of the other Loan Documents shall constitute (i) an automatic representation and warranty by Borrower to Lender that there does not then exist any default or Event of Default and (ii) a reaffirmation as of the date of said request that all of the representations and warranties of Borrower contained in this Agreement and the other Loan Documents are true in all material respects except for any changes in the nature of Borrower's business or operations that would render the information contained in any exhibit attached hereto

either inaccurate or incomplete, so long as Lender has consented to such changes or such changes are expressly permitted by this Agreement.

9.4 Waivers. Borrower hereby releases and waives any and all actions, claims, causes of action, demands and suits which it may ever have against the Lender as a result of any possession, collection, settlement, compromise or sale by Lender of any of the Accounts upon the occurrence of an Event of Default hereunder, notwithstanding the effect of such possession, collection, settlement, compromise or sale upon the business of Borrower. Said waiver shall include all causes of action and claims which may result from the exercise of the power of attorney conferred upon Lender in Section 8.6. The failure at any time or times hereafter to require strict performance by Borrower of any of the provisions, warranties, terms and conditions contained in this Agreement or any other agreement, document or instrument now or hereafter executed by Borrower, and delivered to the Lender, shall not waive, affect, or diminish any right of the Lender thereafter to demand strict compliance and performance therewith and with respect to any other provisions, warranties, terms and conditions contained in such agreements, documents or instruments, and any waiver of default shall not waive or affect any other default, whether prior or subsequent thereto, and whether the same are of a different type. None of the warranties, conditions, provisions and terms contained in the Agreement or any other agreement, document or instrument now or hereafter executed by Borrower and delivered to the Lender shall be deemed to have been waived by any act or knowledge of the Lender, its agents, officers or employees, but only by an instrument in writing signed by an officer of the Lender and directed to the Borrower specifying such waiver.

9.5 Discharge of Taxes and Liens. At its option, the Lender may discharge taxes, Liens, security interests or other encumbrances at any time levied or placed on the Collateral and may pay for the maintenance and preservation of the Collateral. Borrower agrees to reimburse the Lender, on demand, for any payment made or expense incurred by Lender pursuant to the foregoing authorization, including, without limitation, attorney's fees.

9.6 Insurance. Without limiting any other provision hereof, Borrower will keep the Collateral insured in amounts equal to its full insurable value, with companies, and against such risks as may be satisfactory to the Lender. Borrower will pay the costs of all such insurance and deliver policies evidencing such insurance to the Lender with mortgagee loss payable clauses in favor of the Lender. Borrower hereby assigns to the Lender all right to receive proceeds, directs any insurer to pay all proceeds directly to the Lender, and authorizes the Lender to endorse any check or draft for such proceeds and apply the same toward satisfaction of the Loans and other Obligations secured hereby.

9.7 Complete Records; Inspection Rights. Borrower will at all times keep accurate and complete records of the Collateral, and the Lender or its agents shall have the right to call at Borrower's place or places of business at intervals to be determined by Lender, upon reasonable notice and during Borrower's regular business hours, and without hindrance or delay, to inspect and examine the Inventory and the Equipment and to inspect, audit, check, and make abstracts from the books, records, journals, orders, receipts, computer printouts, correspondence and other data relating to the Collateral or to any other transactions between the parties hereto. If requested by Lender, Borrower agrees to make its books, records, journals, orders, receipts, computer printouts,

correspondence, and other data relating to the Collateral available at the Lender's main office for inspection, audit and checking by the Lender or its agents.

9.8 U.C.C. Financing Statement. The Borrower agrees that a carbon, photographic or other reproduction of this Agreement or of a signed financing statement with respect to the Collateral shall be sufficient as a financing statement and may be filed as such by the Lender.

ARTICLE X

EVENTS OF DEFAULT: CERTAIN REMEDIES

10.1 Events of Default. The occurrence of any one or more of the following events shall constitute an Event of Default hereunder:

10.1.1 Payment Default. If Borrower shall fail to make any payment of any installment of principal or interest on the Note when and as the same shall become due and payable, whether at stated maturity, upon demand, upon the occurrence of the Termination Date, by declaration, upon acceleration, or otherwise; or

10.1.2 Fees and Expenses. If Borrower shall fail to pay when due any expense, fee or charge provided for in this Agreement and such failure shall continue for a period of ten (10) days; or

10.1.3 Other Defaults. If Borrower shall fail for a period of fifteen (15) days after written notice from Lender to make any other payment required by the terms of this Agreement or if Borrower should fail to perform, keep, or observe any covenant, agreement or provision contained in this Agreement (other than a covenant, agreement or provision a default in the performance of which is dealt with specifically elsewhere in this Section 10. 1) and the same shall continue for a period of thirty (30) days after notice from Lender; or

10.1.4 Representations False. If any warranty, representation, or other statement made or furnished to Lender by or on behalf of Borrower or in any of the Loan Documents proves to be false or misleading in any material respect when made or furnished.

10.1.5 Financial Difficulties. If the Borrower shall be involved in financial difficulties as evidenced.

(a) by its admission in writing of its inability to pay its debts generally as they become due or of its ceasing to be solvent;

(b) by its filing a petition in bankruptcy or for reorganization or for the adoption of an arrangement under the U.S. Bankruptcy Code (as now or in the future amended) or any similar law regarding debtors rights and remedies or an admission seeking the relief therein provided;

(c) by its making a general assignment for the benefit of its creditors;

(d) by its consenting to the appointment of a receiver for all or a substantial part of its property;

(e) by its being adjudicated a bankrupt;

(f) by the entry of a court order appointing a receiver or trustee for all or a substantial part of its property without its consent, which order shall not be vacated, set aside or stayed within ninety (90) days from the date of entry; or

(g) by the assumption of custody or sequestration by a court of competent jurisdiction of all or substantially all of its property, which custody or sequestration shall not be suspended or terminated within 60 days from its inception; or

10.1.6 Default on Other Obligations. If Borrower shall default in payment of more than \$50,000 due on any Debt of Borrower to others or if Borrower shall default under any loan or security agreement with others or under any material lease involving a payment of more than \$50,000 and any such default shall not be cured within 30 days after written notice to Borrower or Guarantor from Lender or any holder; or

10.1.7 Judgments. If a final judgment for the payment of money in excess of \$500,000 shall be rendered against the Borrower and the same shall remain undischarged for a period of 60 days during which execution shall not be effectively stayed, unless such judgment is substantially covered by collectible insurance; or

10.1.8 Actions. If Borrower shall be criminally indicted or convicted under any law that could lead to a forfeiture of any property of the Borrower; or

10.1.9 Uninsured Losses; Unauthorized Dispositions. Any material loss, theft, damage or destruction not materially covered by insurance (as required by this Agreement and subject to such deductibles as Lender shall have agreed to in writing), or sale, lease or encumbrance of any of the Collateral or the making of any levy, seizure, or attachment thereof or thereon except in all cases as may be specifically permitted by other provisions of this Agreement; or

10.1.10 Adverse Changes. There shall occur any material adverse change in the financial condition or business prospects of Borrower; or

10.1.11 Collateral. If a creditor of Borrower shall obtain possession of any of the Collateral by any legal means; or

10.1.12 Business Disruption. Condemnation. There shall occur any cessation of a substantial part of the business of Borrower for a period which significantly affects Borrower's capacity to continue its business, on a profitable basis; or Borrower shall suffer the loss or revocation of any license or permit now held or hereafter acquired by Borrower which is necessary to the continued or lawful operation of its business; or Borrower shall be enjoined, restrained or in any way prevented by court, governmental or administrative order from conducting all or any material part

of its business affairs; or any material lease or agreement pursuant to which Borrower leases, uses or occupies any of its properties shall be canceled or terminated prior to the expiration of its stated term; or

10.1.13 Change in Control. If any of the present executive officers of Borrower should resign or be removed or if there occurs a change in majority stock ownership of Borrower; or

10.1.14 Subordination Agreements. If a material breach or default shall occur with respect to any subordination agreement executed by any creditor of Borrower, or if any said agreement shall otherwise terminate or cease to have legal effect; or

10.1.15 Other Documents. If a default or event of default or breach occurs under any Loan Document (other than the breaches enumerated in Sections 10.1.1 through 10.1.15 above), or under or with respect to any of the Obligations, or under any other note, evidence of indebtedness, loan agreement, security agreement, guaranty, pledge, mortgage, assignment, or security document executed by Borrower and delivered to the Lender.

The Borrower agrees that default under any Loan Document shall constitute default with respect to all Loan Documents and vice versa.

10.2 Remedies. Upon or at any time after the occurrence of any one or more of the foregoing Events of Default, Lender or the holder of the Note(s) may at its option (i) proceed to protect and enforce its rights by suit in equity, action at law and/or the appropriate proceeding either for specific performance of any covenant or condition contained in the Note(s) or in any Loan Document, (ii) make demand and cease disbursing advances under the Note, and/or (iii) declare the unpaid balance of the Loans and Note(s) together with all accrued interest to be forthwith due and payable, and thereupon such balance shall become so due and payable without presentation, protest or further demand or notice of any kind, all of which are hereby expressly waived.

Without limiting the foregoing, upon the occurrence of any Event of Default, and at any time thereafter, Lender shall have the rights and remedies of a secured party under the Uniform Commercial Code in addition to the rights and remedies provided herein or in any other instrument or paper executed by Borrower. The Lender may require the Borrower to assemble the Equipment and the Inventory and to make the same available to the Lender at a place to be designated by the Lender which is reasonably convenient to both parties. Unless the Collateral is perishable or threatens to decline speedily in value, or is of a style customarily sold on a recognized market, the Lender will give Borrower reasonable notice of the time after which any private sale or other intended disposition thereof is to be made. The requirement of reasonable notice shall be met if such notice is mailed postage prepaid to the Borrower at least five (5) days before the time of such sale or disposition. The Borrower shall pay the Lender on demand any and all expenses, including legal expenses and reasonable attorneys' fees, incurred or paid by the Lender in protecting or enforcing the Loans and all other Obligations secured hereby and other rights of the Lender hereunder, including its right to take possession of the Collateral.

The Lender shall not be liable for failure to collect the Accounts or to enforce any contract rights or for any action or omission on the part of the Lender, its officers, agents and employees, except gross negligence or willful misconduct. No remedy herein conferred upon, or reserved to, the Lender is intended to be exclusive of any other remedy or remedies, including those of any note or other evidence of Debt held by the Lender, and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity. Exercise or omission to exercise any right of the Lender shall not affect any subsequent right of the Lender to exercise the same.

Borrower waives notice prior to Lender's taking possession or control of any of the Collateral or any bond or security that might be required by any court prior to allowing Lender to exercise any of Lender's remedies, including, without limitation, the issuance of an immediate writ of possession.

The Borrower agrees that the Lender may apply the net proceeds received from the Collateral among the Loans and the Obligations toward satisfaction of the same in its sole discretion. Any such proceeds remaining after satisfaction in full of the Loans, the Obligations, and the other obligations and liabilities of the Borrower to the Lender shall be distributed as required by Applicable Laws.

10.3 Right of Set-Off. Upon and after the occurrence of any Event of Default, Lender may, and is hereby authorized by Borrower, at any time and from time to time, to the fullest extent permitted by Applicable Laws, and without advance notice to Borrower (any such notice being expressly waived by Borrower), set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and any other indebtedness at any time owing by Lender to, or for the credit or the account of, Borrower against any or all of the Loans and Obligations and other liabilities and obligations of Borrower now or hereafter existing whether or not such obligations have matured and irrespective of whether Lender has exercised any other rights that it has or may have with respect to such Loans and Obligations and other liabilities and obligations, including, without limitation, any acceleration rights. The aforesaid right of set-off may be exercised by Lender against Borrower or against any trustee in bankruptcy, debtor in possession, assignee for the benefit of the creditors, receiver, or execution, judgment or attachment creditor of Borrower, notwithstanding the fact that such right of set-off shall not have been exercised by Lender prior to the making, filing or issuance, or service upon Lender of, or of notice of, any such petition; assignment for the benefit of creditors; appointment or application for the appointment of a receiver; or issuance of execution, subpoena, order or wan-ant. Lender agrees to notify Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of Lender under this Section are in addition to the other rights and remedies (including, without limitation, other rights of setoff) which Lender may have.

ARTICLE XI

INDEMNIFICATION

11.1 Indemnification. Borrower agrees to defend, indemnify and hold harmless the Lender, its directors, officers, employees, accountants, attorneys, and agents, (the "Indemnitees") from and against any and all claims, demands, judgments, damages, actions, causes of action, injuries, orders,

penalties, costs and expenses (including attorneys' fees and costs of court) of any kind whatsoever arising out of or relating to any breach or default by Borrower or any other Person (including any Guarantor) under this Agreement or any Loan Document or the failure of Borrower to observe, perform or discharge Borrower's duties hereunder or thereunder. Without limiting the generality of the foregoing, Borrower's obligation to indemnify Lender shall include indemnity from any and all claims, demands, judgments, damages, actions, causes of action, injuries, orders, penalties, costs and expenses arising out of or in connection with the activities of the Borrower, its predecessors in interest, third parties who have trespassed on Borrower's property, or parties in a contractual relationship with Borrower, whether or not occasioned wholly or in part by any condition, accident or event caused by an act or omission of the Indemnitees, which: (a) arise out of the actual, alleged or threatened discharge, dispersal, release, storage, treatment, generation, disposal, or escape of radioactive materials, radioactivity, pollutants or other toxic or hazardous substances, including any solid, liquid, gaseous, or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals, and waste (including materials to be recycled, reconditioned or reclaimed); or (b) actually or allegedly arise out of the use, specification, or inclusion of any product, material, or process containing chemicals or radioactive material, the failure to detect the existence or proportion of chemicals or radioactive material in the soil, air, surface water or groundwater, or the performance or failure to perform the abatement of any pollution source or the replacement or removal of any soil, water, surface water, or groundwater containing chemicals or radioactive material; or (c) arises out of or relates to breach by Borrower of any of the provisions of Section 5.15 hereof relating to Environmental Regulations. In addition, Borrower will indemnify and hold Lender harmless from and against any liability, claim, cost or expense incurred by Lender or imposed against Lender for any stamp tax, intangible tax, or other tax, fee or charge imposed by any governmental entity arising out of or relating to the Note(s) or this Agreement or the transactions anticipated herein.

ARTICLE XII

COSTS AND EXPENSES; MISCELLANEOUS

12.1 Costs and Expenses. If, at any time or times hereafter or after the occurrence of an Event of Default, the Lender employs counsel to advise or provide other representation with respect to this Agreement or any Loan Document, or to collect the balance of the Loans, or to take any action in or with respect to any suit or proceeding relating to this Agreement or any of the Loan Documents, or to protect, collect, or liquidate the Collateral or to attempt to enforce any security interest or Lien granted to the Lender by Borrower; then in any such events, all of the reasonable attorneys' fees arising from such services, and any expenses, costs and charges relating thereto, shall constitute additional obligations of Borrower payable on demand of the Lender.

12.2 No Waiver. No waiver of any Event of Default hereunder, and no waiver of any default or Event of Default under any other Loan Document shall extend to or shall affect any subsequent or other then existing default or shall impair any rights, remedies or powers of Lender. No delay or omission of Lender or any subsequent holder of the Notes to exercise any right, remedy, power or privilege hereunder after the occurrence of such default or Event of Default shall be construed as a waiver of any such default, or acquiescence therein.

12.3 Headings. Except for the definitions set forth in Article 1, the headings of the articles, sections, paragraphs and subdivisions of this Agreement are for convenience of reference only, are not to be considered a part hereof, and shall not limit or otherwise affect any of the terms hereof.

12.4 No Usury. In no event shall the amount of interest due or payable on the Loans under this Agreement or the Notes exceed the Maximum Rate and in the event any such payment is inadvertently paid by the Borrower or inadvertently received by the Lender, then such excess sum shall be credited as payment of principal, unless the Borrower elects to have such excess sum refunded to the Borrower forthwith. It is the express intent of the parties that the Borrower not pay and the Lender not receive, directly or indirectly, interest in excess of that which may be legally paid by the Borrower under Applicable Law.

12.5 Marshalling of Assets; Payments Set Aside. Lender shall be under no obligation to marshal any assets or securities in favor of Borrower or any Guarantor or any other Person or against or in payment of any or all of the Obligations. To the extent that sum credited against the Obligations is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the Obligations or part thereof originally intended to be satisfied, and all Liens, rights and remedies therefor, shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

12.6 Survival of Covenants. All covenants, agreements, representations and warranties made herein and in certificates or reports delivered pursuant hereto shall be deemed to have been material and relied on by Lender, notwithstanding any investigation made by or on behalf of Lender, and shall survive the execution and delivery to Lender of any Note or Loan Document.

12.7 Addresses. Any notice or demand which by any provision of this Agreement is required or provided to be given shall be deemed to have been sufficiently given or served for all purposes by (i) being delivered in person to the party to whom the notice or demand is directed or (ii) by being sent as first class mail, postage prepaid, in either event to the following address: If to Borrower, P.O. Box 380501, Birmingham, Alabama 35238; or if any other address shall at any time be designated by Borrower in writing to the holders of record of the Note at the time of such designation to such other address; and if to Lender, 1041 11th Court West, Birmingham, Alabama 35204; or if any other address shall at any time be designated in writing to Borrower, to such other address. Notwithstanding the foregoing, no notice shall be effective as to Lender until actually received by Lender. Any written notice that is not sent in conformity with the provisions hereof shall nevertheless be effective on the date that such notice is actually received by the noticed party.

12.8 Venue and Jurisdiction. Borrower agrees that any legal action brought by the Lender to collect the Loans or any Obligation or to assert any claim against Borrower under any Loan Document, or any part thereof, may be brought in any court in the State of Alabama having subject matter jurisdiction, waives its right to object to any such action on grounds it is brought in the improper venue, and irrevocably consents that any legal action or proceeding against it under, arising

out of, or in any manner relating to the Loans, the Obligations, or any Loan Document may be brought in the Circuit Court of Jefferson County, Alabama or in any other Circuit Court of the State of Alabama or in the U.S. District Court for the Northern District of Alabama. Borrower, by the execution of this Agreement, expressly and irrevocably assents and submits to the personal jurisdiction of any such court in any such action or proceeding. Borrower consents to the service of process relating to any such action or proceeding by mail to the address set forth in this Agreement.

12.9 Continuing Obligation: Benefits. This Agreement, and each and every provision hereof, is a continuing obligation and shall (i) be binding upon the Borrower and the Lender, their successors and assigns, and (ii) inure to the benefit of and be enforceable by the Borrower and Lender and their successors and assigns; provided, that the Borrower may not assign all or any part of this Agreement without the prior written consent of Lender, which consent may be granted or withheld in the sole discretion of Lender.

12.10 Controlling Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alabama; provided, however, that if any of the Collateral shall be located in any jurisdiction other than Alabama, the laws of such jurisdiction shall govern the method, manner and procedure for foreclosure of Lender's lien upon such Collateral.

12.11 Miscellaneous. This Agreement and the instruments and agreements referred to herein or called for hereby supersede and incorporate all representations, promises, and statements, oral or written, made by the Lender in connection with the Loans. This Agreement may not be varied, altered, or amended except by a written instrument executed by an authorized officer of the Lender. This Agreement may be executed in any number of counterparts, each of which, when executed and delivered, shall be an original, but such counterparts shall together constitute one and the same instrument. Any provision in this Agreement which may be unenforceable or invalid under any law shall be ineffective to the extent of such unenforceability or invalidity without affecting the enforceability or validity of any other provisions hereof.

12.12 General Waivers. To the fullest extent permitted by Applicable Law, Borrower waives (i) presentment, demand and protest and notice of presentment, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guaranties at any time held by Lender on which Borrower may in any way be liable; (ii) notice prior to Lender's taking possession or control of any of the Collateral or any bond or security which might be required by any court prior to allowing Lender to exercise any of Lender's remedies, including the issuance of an immediate writ of possession; (iii) the benefit of all valuation, appraisal and exemption laws; (iv) any right Borrower may have upon payment in full of the Obligations to require Lender to terminate its security interest in the Collateral until the execution by Borrower of an agreement indemnifying Lender from any loss or damage Lender may incur as the result of dishonored checks or other items of payment received by Lender from Borrower or any Account Debtor and applied to the Obligations; and (v) notice of Lender's acceptance hereof or of any Loan Document.

12.13 WAIVER OF RIGHT TO TRIAL BY JURY. BORROWER AND LENDER HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY ON ANY CLAIM, COUNTERCLAIM,


SETOFF, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING OUT OF OR IN ANY WAY PERTAINING OR RELATING TO THIS AGREEMENT, THE NOTES, THE LOAN DOCUMENTS, OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION WITH THIS AGREEMENT OR (B) IN ANY WAY CONNECTED WITH OR PERTAINING OR RELATED TO OR INCIDENTAL TO ANY DEALINGS OF THE PARTIES HERETO WITH RESPECT TO THIS AGREEMENT, THE NOTES, THE LOAN DOCUMENTS, OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR IN CONNECTION WITH THE TRANSACTIONS RELATED THERETO OR CONTEMPLATED THEREBY OR THE EXERCISE OF EITHER PARTY'S RIGHTS AND REMEDIES THEREUNDER, IN ALL OF THE FOREGOING CASES WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. BORROWER AND LENDER AGREE THAT EITHER OR BOTH OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED AGREEMENT BETWEEN THE PARTIES IRREVOCABLY TO WAIVE TRIAL BY JURY, AND THAT ANY DISPUTE OR CONTROVERSY WHATSOEVER BETWEEN THEM SHALL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

IN WITNESS WHEREOF, each Borrower and the Lender have caused this instrument to be executed by its respective duly authorized officers and each Borrower has caused its seal to be affixed as of the date first above written.


BORROWER:

SHOOK & FLETCHER INSULATION CO.

By: _____


Wayne Killion, Jr.
President

Attest:


Christine C. Killion
Secretary

LENDER:

SHOOK & FLETCHER SUPPLY CO. OF
ALABAMA, INC.

By: _____


Wayne Kilhon, Jr.
President

Attest:

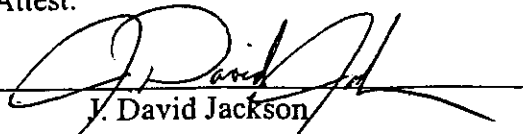

J. David Jackson
Secretary

EXHIBIT "A"

BORROWERS REPORT

SEE FOLLOWING PAGES

EXHIBIT "B"

EQUIPMENT

1. 2001 Buick Park Avenue SD, Beige, Vehicle ID#1G4CW54K814286707
2. 2001 Sterling M6500 VA, White, Vehicle ID#2FZAAHAL11AJ50359
3. 2002 Buick Park Avenue 4S, Silver, Vehicle ID#1G4CW54K524135227
4. 2001 Buick Park Avenue SD, Beige, Vehicle ID#1G4CW54K914233949
5. 2001 Buick Park Avenue SD, Black, Vehicle ID#1G4CU541514202999
6. 2000 Buick Park Avenue, SD, Red, Vehicle ID#1G4CW52K0Y4157549
7. 2001 Sterling M6500, Truck, White, Vehicle ID#2FZAAHAL11AJ31987

REAL ESTATE

Morgan County Real Property: All of that part of Lot 24 lying west of Sexton Road according to the map of the Britt Davis and Riley R. Randel Addition to Decatur, Alabama, a map or plat of which is on file and of record in Map Book 1, Page 72 in the Office of the Judge of Probate of Morgan County, Alabama, said property being more specifically described as beginning at the southwest corner of Lot 24 of Britt Davis and Riley R. Randel Addition to Decatur, Alabama, thence east along the south line of said Lot 24 for 326.91 feet to a point on the westerly margin of Sexton Road; thence in a northerly direction 211.09 feet, more or less, along the westerly margin of said Sexton Road to a point on the north margin of said Lot 24; thence west 336.49 feet along the north margin of said Lot 24 to a point on the L & N Railroad Company right-of-way; thence south along the L & N Railroad Company right-of-way, said line also being the westerly margin of said Lot 24 for 212.28 feet to the point of beginning, containing 1.6 acres, more or less, in Morgan County, Alabama.

Shelby County Real Property: A tract of land in the Northeast Quarter of Section 15, Township 19 South, Range 2 West, more specifically described as : Begin at the point where the North line of the South half of the Northeast Quarter of Northeast Quarter intersects the Southeasterly right-of-way line of Valleydale Road; thence proceed Easterly to the Northeast corner of said South half of Northeast Quarter of Northeast Quarter; thence run South along the East line of said Section 15 for 330 feet to a point; thence Southwesterly to the Southeast corner of the Southwest Quarter of the Northeast Quarter of the Northeast Quarter; thence continue Southwesterly 517.2 feet to a point; thence turn an angle to the right of 116 degrees 22 minutes and run North parallel to the East line of the Southwest Quarter of the Northeast Quarter of said Section a distance of 285.9 feet to a point; thence turn an angle to the left of 30 degrees 45 minutes 19 seconds and run in a Northwesterly direction 210.9 feet to an intersection with the Southerly right of way line of Valleydale Road; thence turn an angle to the right of 90 degrees 29 minutes 48 seconds to the tangent to a curve having a central angle of 15 degrees 02 minutes 28 seconds and a radius of 2006.4 feet; thence continue along the arc of said curve a distance of 526.7 feet to a point marked with a concrete monument; thence run along a tangent extended from the last described curve a distance of 148.3 feet to a point on the North line of the South half of the Northeast Quarter of the Northeast Quarter of said Section which is the point of beginning, in Shelby County, Alabama.

EXHIBIT "C"

LIENS AND ENCUMBRANCES

1. All prior SouthTrust Bank, National Association UCC filings affecting Borrower.

EXHIBIT "D"

INVENTORY LOCATIONS AND OWNERSHIP INFORMATION

ATLANTA - Division 10
5240 Panola Ind. Blvd., Suite N
Decatur, GA 30035
T: (770) 981-8822
F: (770) 981-0005

BIRMINGHAM - Division 20
125 North 45th Place
Birmingham, AL 35212
T: (205) 595-8441
F: (205) 595-8443

DECATUR - Division 30
3315 Sexton Road S.E.
Decatur, AL 35602
T: (256) 355-7011
F: (256) 355-7014

MOBILE - Division 50
3374 Moffett Road, Suite B-1
Mobile, AL 36607
T: (334) 478-2297
F: (334) 478-2295

KNOXVILLE - Division 70
3420 Distribution Drive
Knoxville, TN 37914
T: (423) 637-7813
F: (423) 637-6944

CHATTANOOGA - Division 90
5918 Quintus Loop
Chattanooga, TN 37421
T: (423) 892-5415
F: (423) 892-5557

FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT is made and entered into this 13th day of January, 2002, by and between **SHOOK & FLETCHER INSULATION CO.**, a Delaware corporation, qualified to do business in Alabama ("Borrower"), and **SHOOK & FLETCHER SUPPLY CO. OF ALABAMA, INC.**, a Delaware corporation ("Lender"), as follows:

WITNESSETH:

WHEREAS, Lender and Borrower did enter into that certain Loan and Security Agreement dated December 17, 2001, whereby Lender committed to advance to Borrower up to \$2,000,000.00, with such loan to be secured by substantially all of the assets of Borrower; and

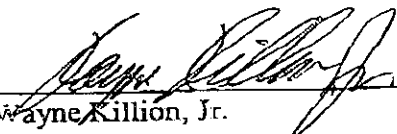
WHEREAS, the parties are desirous of amending and clarifying the Loan and Security Agreement to exclude from the assets which secure such loan, all insurance policies of Borrower relating to asbestos or asbestos-containing products:

NOW, THEREFORE, in consideration of the above premises, the parties agree as follows:

1. Notwithstanding any language in the Loan and Security Agreement to the contrary, the Collateral does not include any insurance policy naming Borrower as an insured, or otherwise affording Borrower insurance coverage, upon which any claim has been or may be made against Borrower for damages relating to asbestos or asbestos-containing products.
2. Except as modified hereby, the Loan and Security Agreement remains in full force and effect.

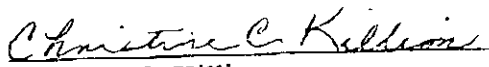
IN WITNESS WHEREOF, the Borrower and Lender have caused this instrument to be executed by their duly authorized officers and their seals affixed as of the date first above written.

SHOOK & FLETCHER INSULATION CO.,
a Delaware corporation


By: 
Wayne Killion, Jr.
Its: President

(Borrower)

Attest:

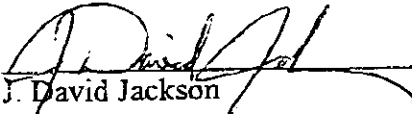

Christine C. Killion
Secretary

**SHOOK & FLETCHER SUPPLY CO. OF
ALABAMA, INC., a Delaware corporation**

By: 
Wayne Killion, Jr.
Its: President

(Lender)

Attest:


J. David Jackson
Secretary

SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

Dated April 5, 2002

Shook & Fletcher Insulation Co., a Delaware corporation (the "Borrower"), and **Shook & Fletcher Supply Co. of Alabama, Inc.**, a Delaware corporation (the "Lender"), agree as follows:

1. **Preliminary Statements.** Lender and Borrower have heretofore entered into that certain Loan and Security Agreement dated as of December 17, 2001 and First Amendment to Loan and Security Agreement dated January 1, 2002 (the "Agreement"), pursuant to which Lender agreed to make a loan facility available to the Borrower in the original principal amount of \$2,000,000.00. The Borrower has requested that the Lender increase the amount of the loan facility to \$3,000,000.00. The Lender and the Borrower have agreed to amend the Agreement in the manner set forth in this Second Amendment to Loan and Security Agreement to Loan Agreement (this "Amendment") effective as of the date hereof, unless otherwise indicated.

2. **Definitions.** The term "Agreement" as used herein shall mean the Agreement as hereby amended and modified. Unless the context otherwise requires, all capitalized terms used herein without definition shall have the definitions provided therefor in the Agreement.

3. **Amendments.** Subject to the conditions hereof, the Agreement is amended in accordance with the following terms.

(a) The amount of the Loan in all pertinent sections of the Agreement is increased from \$2,000,000.00 to \$3,000,000.00

(b) The "Loan Amount" is increased from \$2,000,000.00 to \$3,000,000.00.

3. **Conditions.** As a condition to the effectiveness of this Amendment, the Borrower shall deliver, or cause to be delivered to the Lender, the following:

- (i) the executed First Amendment to Mortgage;
- (ii) the executed First Amendment to Junior Mortgage;
- (iii) the executed First Amendment to Master Note;
- (iv) such other instruments and documents as the Lender may reasonably request.

4. **Amendment to Loan Documents.** The other Loan Documents, including without limitation, the Note, are hereby amended in order to change the references to the Agreement to reflect that the Agreement has been amended by this Amendment.

5. **Waiver.** Borrower hereby (i) acknowledges that there is no default on the part of

Lender under the Agreement, (ii) acknowledges that there are no offsets or defenses to payment of the obligations of the Borrower under the Agreement, and (iii) waives any defense, claim or counterclaim of the Borrower regarding the obligations of the Lender under the Agreement.

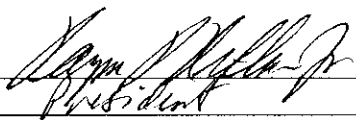
6. **Entire Agreement.** This Amendment sets forth the entire understanding and agreement of the parties hereto in relation to the subject matter hereof and supersedes any prior negotiations and agreements among the parties relative to such subject matter.

7. **Force and Effect of Amendment.** Except as specifically amended, modified or supplemented as set forth in this Amendment, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to Loan and Security Agreement to be executed as of the day and year first above written.

BORROWER:

Shook & Fletcher Insulation Co., a Delaware corporation

By: 
Its: President

LENDER:

Shook & Fletcher Supply Co. of Alabama, Inc., a Delaware corporation

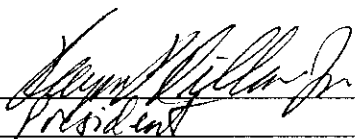
By: 
Its: President

Exhibit B

DIP Loan Agreement

**AGREEMENT REGARDING USE OF CASH
COLLATERAL AND SUBORDINATED DIP FINANCING**

THIS AGREEMENT REGARDING USE OF CASH COLLATERAL AND SUBORDINATED DIP FINANCING (this “**Agreement**”) is made and executed this ____ day of April, 2002 by and between Shook & Fletcher Insulation Co., a Delaware corporation (the “**Borrower**”), and Shook & Fletcher Supply Co. of Alabama, Inc., a Delaware corporation (the “**Lender**”).

R E C I T A L S:

WHEREAS, on or about April 8, 2002 (the “**Filing Date**”), the Borrower filed a voluntary petition under chapter 11 of title 11 of the United States Code, 11 U.S.C. § 101, et seq. (the “**Bankruptcy Code**”) in the United States Bankruptcy Court for the Northern District of Alabama, Southern Division (the “**Bankruptcy Court**”); and

WHEREAS, on or about December 17, 2001, the Lender and the Borrower executed that certain Loan and Security Agreement dated December 17, 2001 (as amended, the “**Loan and Security Agreement**”, and together with all promissory notes, instruments, financing statements, mortgages and other related documents, the “**Loan Documents**”; capitalized terms used herein without definition shall have the meanings give to such terms in the Loan and Security Agreement) providing for a loan from the Lender to the Borrower in an amount of up to \$3,000,000 (the “**Pre-petition Loan**”); and

WHEREAS, pursuant to the Loan Documents, the Pre-petition Loan is secured by the Collateral, which includes properly perfected, first priority liens in certain Equipment and other properties of the Borrower specified in the Loan and Security Agreement, and properly perfected, second priority liens in Borrower’s Accounts, Inventory and General Intangibles, and

real estate mortgages on Borrower's properties located in Birmingham, Alabama and Decatur, Alabama; and

WHEREAS, as of the Filing Date, the total indebtedness due under the Loan Documents was approximately \$2 million; and

WHEREAS, the Lender was a fully secured creditor of the Borrower on the Filing Date and at all times during the ninety (90) day period preceding the Filing Date; and

WHEREAS, during the pendency of the Borrower's bankruptcy case, the Borrower has requested and the Lender has agreed pursuant to this Agreement (a) to permit the Borrower to use the Collateral, including cash collateral as that term is used within the meaning of Section 363 of the Bankruptcy Code (the "**Cash Collateral**") and (b) to provide the Borrower with post-petition financing by continuing in place on a post-petition basis the financing arrangement that existed prior to the Filing Date under the Loan Documents (the "**DIP Financing**"); and

WHEREAS, the Borrower and the Lender have entered into this Agreement to, among other things, permit the Borrower to use the Collateral and the Cash Collateral after the Filing Date and to provide for the DIP Financing to the Borrower.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals, the covenants contained hereinafter and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and the Lender hereby agree as follows:

1. **Recitals.** The Borrower and the Lender agree that the above recitals are true and accurate and by execution of this Agreement each party acknowledges the truth, accuracy and binding effect of the representations and statements contained therein.

2. **Operation of Borrower's Business.** The Borrower shall continue to operate its business in the ordinary and usual course.

3. **Confirmation of Loan Documents; DIP Financing; Amendments to Loan and Security Agreement.**

a. The Borrower acknowledges, agrees and affirms that, as of April 8, 2002: (i) there was due and owing to the Lender under the Loan Documents, without defense, offset, counterclaim or claim of any kind, the principal sum of \$2 million together with all accrued interest thereon; and (ii) the foregoing indebtedness and all obligations under the Loan Documents are valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms and the Borrower hereby ratifies and reconfirms its obligations thereunder, including its obligation to make to the Lender all payments as they become due under the Loan Documents with such payments to be made in accordance with the terms of the Loan Documents.

b. The Lender further agrees to continue to provide advances to the Borrower under the Loan Documents and the terms of this Agreement as DIP Financing, and all amounts advanced in respect of the DIP Financing shall be governed by and payable by the Borrower in accordance with the terms of the Loan Documents, as modified by this Agreement and an order of the Bankruptcy Court approving this Agreement and the DIP Financing provided for herein.

c. To implement the terms of the Borrower's Plan of Reorganization (the "**Plan**"), the following additional amendments to the Loan and Security Agreement shall become effective on the Effective Date (as defined in the Plan):

(i) The last sentence of Section 5.16 is amended to add the following phrase at the end of such sentence: "other than the lien granted pursuant to that certain Pledge

Agreement among the Shook & Fletcher Asbestos Settlement Trust, the Borrower, Wayne W. Killion, Sr. and Wayne W. Killion, Jr., M.D.”

(ii) Section 7.1 is amended to add a new Section 7.1.4 which shall read in its entirety as follows:

7.1.4 Indebtedness in respect of that certain Promissory Note in the original principal amount of \$3,000,000 issued by the Borrower and Shook & Fletcher Supply Co. of Alabama, Inc. to the Shook & Fletcher Asbestos Settlement Trust (the “Trust Note”).

(iii) Section 7.5 is amended to add the following phrase at the end of such Section 7.5: “other than financing statements in respect of Permitted Liens.”

(iv) Section 7.8 is amended to add the following phrase at the end of such Section 7.8: “and except for the transfer of certain assets of the Borrower to Shook & Fletcher Asbestos Settlement Trust pursuant to the terms of the Shook & Fletcher Asbestos Settlement Trust Agreement among the Borrower, the Futures Representative signatory thereto, the Trust Advisory Committee signatory thereto and the Trustee identified therein.”

(v) Section 7.12 is amended to add to the end of such Section 7.12 the following phrase: “and provided further that the Borrower may make prepayments in respect of the Trust Note.”

4. **Replacement Liens; Acknowledgement.** As additional collateral for the Borrower’s obligations under the Loan Documents (including the Borrower’s obligations in respect of the DIP Financing and this Agreement) and as adequate protection for the use of cash collateral, the Borrower hereby grants to the Lender continuing security interests and replacement liens in and to the Collateral arising or acquired on or after the Filing Date, and all proceeds thereof, and such security interests and replacement liens shall have the relative

priorities specified in the Loan and Security Agreement. As additional security for the Borrower's obligations under the Loan Documents (including the Borrower's obligations in respect of the DIP Financing and this Agreement), the Borrower agrees that the claim of the Lender in respect of the DIP Financing and the use of the Cash Collateral shall be afforded the status granted by Section 364(c)(1) of the Bankruptcy Code. The Lender and the Borrower hereby acknowledge that the Pre-petition Loan and the DIP Financing are subordinate to the financing provided to the Borrower by SouthTrust Bank, an Alabama banking corporation ("**SouthTrust**"), pursuant to, and the related liens and claims of SouthTrust arising under, the Revolving Note dated March 22, 2001, the Loan and Security Agreement dated March 22, 2001, as amended, and the Agreement Regarding Use of Cash Collateral and DIP Financing dated April __, 2002.

5. **Accrual of Interest.** During the term of this Agreement, and subject to there occurring no Events of Default under this Agreement, interest on all amounts outstanding under the Loan Documents and the DIP Financing shall be calculated at the non-default rate specified in the Loan Documents.

6. **Inspection of Collateral.** The Lender shall be permitted access to the Borrower's books and records for the purpose of inspection of the Collateral, upon two (2) business day's notice to the Borrower and its counsel.

7. **Reporting Requirements.** The Borrower shall continue to satisfy all financial reporting requirements provided for in the Loan Documents.

8. **Service of Operating and Reports.** The Borrower shall deliver to the Lender copies of all monthly operating reports required to be made to the Bankruptcy Administrator for the Northern District of Alabama.

9. **Modification of Automatic Stay.** Upon executing this Agreement, subject to the approval of the Bankruptcy Court, the automatic stay provided under Section 362(d) of the Bankruptcy Code shall be modified to the extent necessary to effectuate the provisions of this Agreement, including, but not limited to, permitting the Lender to receive and apply the payments made by the Borrower in accordance with the terms and provisions of this Agreement. Notwithstanding anything to the contrary herein, the automatic stay shall be modified to allow the Lender to exercise all of its contractual, legal and equitable rights in and to the Collateral, without further order or notice in the event that (a) the Lender files a duly executed affidavit with the Bankruptcy Court attesting to the occurrence of an Event of Default hereunder and serves a copy of such filing and affidavit on the Borrower, its counsel, and such others as are entitled to notice under existing orders of the Bankruptcy Court, by hand delivery or facsimile and (b) the Borrower fails to file, within five (5) business days of the Lender's filing of its affidavit, an affidavit of the Borrower with the Bankruptcy Court refuting that an Event of Default had occurred under this Agreement. If the Borrower does file an affidavit refuting that an Event of Default has occurred under this Agreement, the Borrower shall serve a copy of such filing and affidavit on the Lender, its counsel, and such others as are entitled to notice under existing orders of the Bankruptcy Court, by hand delivery or facsimile and the parties shall request that the Bankruptcy Court hold a prompt hearing on the Lender's request for relief from the automatic stay.

10. **Waivers; Limitations.**

a. Notwithstanding any provision in the Loan Documents to the contrary, the Lender hereby forever waives any default or event of default under the Loan Documents or under the DIP Financing made pursuant to this Agreement and the Loan Documents caused

solely by the Borrower's filing of its voluntary petition under chapter 11 of the Bankruptcy Code in the Bankruptcy Court on the Filing Date (or the pendency of such case). In addition, to the extent the obligation of the Lender to fund amounts under the Loan Documents or the DIP Financing is conditioned on there being no default or event of default under the Loan Documents, or the Borrower is required to represent that no such default or event of default has occurred as a condition to the Lender funding amounts under the Loan Documents or the DIP Financing, such conditions, to the extent the failure to meet such conditions is based solely on the Borrower's filing of its voluntary petition under chapter 11 of the Bankruptcy Code in the Bankruptcy Court on the Filing Date (or the pendency of such case), are hereby forever waived. The Lender hereby further agrees that the Borrower's filing of its voluntary petition under chapter 11 of the Bankruptcy Code in the Bankruptcy Court on the Filing Date (or the pendency of such case) shall not constitute a breach of any affirmative or negative covenant contained in the Loan Documents.

b. Except as otherwise provided in paragraph 5 and paragraph 10(A), the Borrower and the Lender agree that nothing contained herein or any actions authorized to be taken by the Lender pursuant to the terms of this Agreement shall be or constitute a waiver, release or relinquishment of any of the Lender's rights or interests in the Collateral including, without limitation its right to the Cash Collateral, or under the Loan Documents, as modified by this Agreement and an order of the Bankruptcy Court.

11. **Default.** The occurrence of any one or more of the following events shall constitute an "Event of Default" under this Agreement and the DIP Financing: (a) if a trustee is appointed in the Borrower's bankruptcy case, either under chapter 11 or chapter 7 of the Bankruptcy Code; (b) if there is a breach (whether continuing or not) of any financial covenant

set forth in the Loan Documents; or (c) if there is a breach of any other term or condition of this Agreement or the underlying Loan Documents, as modified by this Agreement or an order of the Bankruptcy Court (other than defaults existing as of the Filing Date).

12. **Binding Effect.** This Agreement shall be binding upon Borrower as debtor -in-possession, any subsequent appointed trustee, either under chapter 11 or chapter 7 of the Bankruptcy Code, and upon all other creditors of the estate who have or may hereinafter extend credit to the Borrower or its estate.

13. **Release.** This Agreement does hereby constitute a full and complete release, waiver, discharge and relinquishment of any and all claims, rights, causes of action, demands or assertions that the Borrower has or may be entitled to assert against the Lender, as well as its insiders, affiliates, owners, predecessors, successors, assigns, employees, attorneys and/or agents, whether known or unknown, as of the date of this Agreement.

14. **Jurisdiction.** Notwithstanding any provision of the Loan Documents to the contrary, the Bankruptcy Court shall retain exclusive jurisdiction over the subject matter of this Agreement in order to resolve any dispute in connection with the rights and duties specified hereunder.

15. **Full Force and Effect.** This Agreement is subject to the approval of the Bankruptcy Court. Except as modified herein and by an order of the Bankruptcy Court, the terms and provisions of the Loan Documents shall remain in full force and effect.

IN WITNESS WHEREOF, the Borrower and the Lender have executed this Agreement
on the day and year first written above.

SHOOK & FLETCHER INSULATION CO.,
a Delaware corporation, as debtor and debtor-in-
possession

By: _____
Its: _____

SHOOK & FLETCHER SUPPLY CO. OF
ALABAMA, INC., a Delaware corporation

By: _____
Its: _____

924273.1

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
Southern Division**

In re:

SHOOK & FLETCHER INSULATION CO.

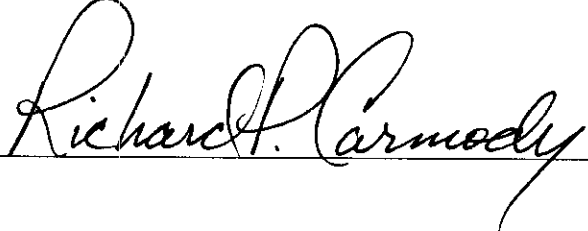
Debtor-in-Possession

Case No. _____

Chapter 11

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 8th day of April, 2002, I caused a copy of the foregoing Motion for Authority to Use Cash Collateral and Obtain Subordinated Secured Credit from Shook & Fletcher Supply Co. and proposed Interim Order to be served by first class mail upon the twenty largest unsecured creditors and upon the parties on the attached Service List in the manner indicated.



Shook & Fletcher Insulation Co.
Attachment to Certificate of Service

Bankruptcy Administrator

J. Thomas Corbett, Esq.*
Office of the Bankruptcy Administrator
United States Bankruptcy Court
Robert South Vance Federal Building
1800 5th Avenue North
Birmingham, AL 35203

Futures Representative

R. Scott Williams, Esq.*
Haskell Slaughter Young & Rediker, L.L.C.
1200 AmSouth/Harbert Plaza
1901 Sixth Avenue North
Birmingham, AL 35203

Futures Representative's Counsel

Robert M. Fishman, Esq.
Shaw Gussis Fishman Glantz & Wolfson, LLC
1144 West Fulton Street, Suite 200
Chicago, IL 60607

Unofficial Committee of Asbestos Claimants

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Provost & Umphrey Law Firm L.L.P.
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Beaumont, TX 77704

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Kelly & Ferraro, LLP
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Cleveland, OH 44114

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Cumbest, Cumbest, Hunter & McCormick, P.A.
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Pascagoula, MS 39568-1287

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Ness Motley Loadholt Richardson & Poole, PC
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Mount Pleasant, SC 29464

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Varas & Moran
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Hazlehurst, MS 39083

Counsel for SouthTrust Bank

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Spain & Gillon LLC
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Birmingham, AL 35203

AmSouth Bank

John Ketting, Loan Officer*
AmSouth Bank of Alabama
Main Office Birmingham
1900 – 5th Avenue North
Birmingham, AL 35203

Counsel for Shook & Fletcher Supply Co.

Donald M. Wright*
Sirote & Permutt, P.C.
2311 Highland Avenue South
Birmingham, AL 35205

Counsel for Additional Parties-in-Interest

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Lloyd C. Peeples, III, Esq.
Bradley Arant Rose & White LLP
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Counsel for the Shareholders

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Hogan & Hartson
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Counsel for Hartford Insurance Co.

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Franklin D. Kramer, Esq.
Shea & Gardner
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Washington, DC 20036
Counsel for CCR

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Mayer, Brown, Rowe & Maw
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New York, NY 10019-5820
Counsel for CCR

W. Clark Watson, Esq.*
Eric T. Ray, Esq.
Balch & Bingham LLP
1710 Sixth Avenue North
Birmingham, AL 35201-0306
Counsel for Travelers Casualty and Surety Company

* Parties designated with an asterisk were served by hand-delivery. All other parties were served by overnight mail.